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Research Report

The role of development finance institutions in addressing food security in vulnerable contexts

ODI Analysis

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SPARC
Supporting Pastoralism and Agriculture in Recurrent and Protracted Crises

November 2023

ODI Analysis

THE ROLE OF DEVELOPMENT FINANCE INSTITUTIONS IN ADDRESSING FOOD SECURITY IN VULNERABLE CONTEXTS

Alberto Lemma, Sherillyn Raga, Dirk Willem te Velde and Steve Wiggins

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Version 0.1: The report has been released expediently to ensure prompt availability within our community of practice, aiming to foster engagement and disseminate knowledge swiftly. Please be mindful that, for this purpose, the material has not undergone extensive proofreading, and minor typos may be present.

The final version will be published shortly. Your understanding of this expedited release is appreciated.

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Abbreviations

ADB	Asian Development Bank
AFD	Agence française de développement (French Development Agency)
AfDB	African Development Bank
ARIA	Africa Resilience Investment Accelerator
BII	British International Investment
CAR	Central African Republic
CCFP	Critical Commodities Finance Program
COFIDES	Compañia Española de Financiación del Desarrollo (Spanish Development Finance Company)
DEG	Deutsche Investitions- und Entwicklungsgesellschaft (German Investment Corporation)
DFC	International Development Finance Corporation (US)
DFI	development finance institution
DMC	developing member country
DRC	Democratic Republic of Congo
EBRD	European Bank for Reconstruction and Development
EDFI	European Development Finance Institutions
EIB	European Investment Bank
EU	European Union
FAO	Food and Agriculture Organization of the UN
FCDO	Foreign & Commonwealth Development Office
FCS	fragile and conflict-affected situations
FCV	fragility, conflict and violence
FEWS	Famine Early Warning System
FMO	Financierings-Maatschappij voor Ontwikkelingslanden (Netherlands Development Finance Company)
FY	fiscal year
GAFSP	Global Agriculture and Food Security Program
GTFP	Global Trade Finance Program
GTLP	Global Trade Liquidity Program
GTSF	Global Trade Supplier Finance
GTSFP	Global Trade Supplier Finance Program
GWFP	Global Warehouse Finance Program
HLPE	High Level Panel of Experts on Food Security and Nutrition
HSA	Hayel Saeed Anam
IADB	Inter-American Development Bank
IBRD	International Bank for Reconstruction and Development
ICSID	International Centre for Settlement of Investment Disputes
IDA	International Development Association
IFC	International Finance Corporation
IPC	Integrated Food Security Phase Classification
LIC	low-income country
MIC	middle-income country
MIGA	Multilateral Investment Guarantee Agency
MSMEs	micro, small and medium enterprises
OECD	Organisation for Economic Co-operation and Development
OPIC	Overseas Private Investment Corporation
Proparco	Promotion et participation pour la coopération économique (Promotion and Participation for Economic Cooperation)
PSW	Private Sector Window
SDG	Sustainable Development Goal
SIDS	small island developing states

SIFEM	Swiss Investment Fund for Emerging Markets
SIMEST	Società Italiana per le Imprese all'Estero (Italian Financial Institution for Companies Abroad)
SMEs	small and medium enterprises
SPARC	Supporting Pastoralism and Agriculture in Recurrent and Protracted Crises
STCF	Structured Trade Commodity Finance
TA	technical assistance
UK	United Kingdom
UN	United Nations
US	United States
USAID	US Agency for International Development
WBG	World Bank Group
WCS	Working Capital Systemic Solutions
WDI	World Development Indicators

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Executive summary

The challenges of food security and economic development in fragile contexts – low-income economies frequently subject to conflict, political instability, macroeconomic imbalances and natural disasters, the effects of which commonly interact – have become urgent. This report asks what more can be done to address food security in such contexts using private sector solutions.

We focus on 14 countries: the 10+1 group, which includes 10 countries –Afghanistan, Central African Republic, Democratic Republic of Congo, Ethiopia, Nigeria, Somalia, South Sudan, Sudan, Syria and Yemen – and 1 region: Burkina Faso, Chad, Mali and Niger. The 10+1 countries differ in their levels and sources of available food. Most countries rely on domestic harvests for most of the dietary energy consumed, although a few countries, such as Somalia and Yemen, depend heavily on imports of staples – a dependency that has deepened over recent decades or longer.

Can working with development finance institutions (DFIs) and private firms help alleviate food insecurity? Operating in fragile contexts challenges DFIs, whose mandate often requires them to invest funds without a loss. But it is not impossible. We find that DFIs already operate in fragile contexts, even though the share of DFI finance going to such countries is low.

DFI investments can contribute to food security in the 10+1 countries through two channels: either by raising productivity in the economy, thereby potentially raising incomes, which would then allow people to access more food; or by directly investing in farms and agribusiness in the food supply chains so as to raise food output and agricultural and agribusiness productivity, to reduce costs and thereby to increase the availability of food and bring down its cost to consumers. Some DFIs recognise this as part of their sector strategies.

DFI investment could improve food systems along the value chain, from input supply to farming to trade, storage, processing, transport and retailing. Investment could lead to higher productivity, lower costs, cheaper food and higher incomes for all those working in food supply chains. The 10+1 countries generally lack capital to invest: the DFIs should therefore be a valuable source of additional capital. We identify opportunities to address constraints in the food value chains, with examples from Ethiopia and Somalia.

In practice, however, DFIs invest little in fragile states in general, and in the 10+1 group in particular. We find that around $14.5–22 billion, or some 5–7.5% of total financing by 11 selected DFIs was allocated to the 10+1 countries between 2012 and 2022.[1] Funding to the 10+1 group consisted of 511 investments, although half of these funds went to Nigeria; the 5% becomes 2.5% if we exclude Nigeria. Even less do DFIs invest in agriculture and its value chains. DFI managers may wish to invest for food security in fragile contexts but they are limited by political and security risks, required standards or expected returns. A new narrative on risks and returns is necessary.

DFI respondents said they could not find companies and projects in which to invest with risks they could tolerate, with the returns they expected and on a scale that covers the administrative costs of allocating, disbursing and monitoring use of DFI funds. Most businesses that could benefit from more capital face too

[1] DFIs including multilateral DFIs – International Finance Corporation (IFC), Asian Development Bank (ADB), African Development Bank (AfDB), European Investment Bank (EIB) and Global Agriculture and Food Security Program (GAFSP) – and bilateral DFIs – British International Investment (BII), Netherlands Development Finance Company (FMO), German Investment Corporation (DEG), Norfund (Norway), Promotion and Participation for Economic Cooperation (Proparco, France), International Development Finance Corporation (DFC, US) and Finnfund (Finland).

much risk for the DFIs: the firms are often so small that DFI administrative costs per dollar disbursed are too high.

When DFIs do find investable companies in the 10+1 countries, they often invest in the same company, so that some well-run (or fortunate) enterprises, such as EthioChicken (Ethiopia), Indorama Eleme Fertilizer and Chemicals (Nigeria) or Hayel Saeed Anam Group (HSA) (Yemen), benefit disproportionately from DFI finance. It is hard to imagine that there are no other investable firms: the way that DFIs converge on a handful of enterprises suggests herd behaviour. DFIs often require proof of concept and apply strict investment standards, agreed with shareholders, which means that the desire among DFIs and the same shareholders to do more in difficult environments and expand the range of enterprises covered is often unmet.

Hence, the potential of DFIs to finance companies and projects that would improve food security in the 10+1 group is not sufficiently realised.

Could DFIs do more, given the limit that their mandates, appetite for risks, demand for returns and operating procedures impose on them? From our interviews, some ways forward appear. One would be to blend the near-commercial finance of the DFIs with concessional funds, funds that neither demand low risk nor expect full repayment. To make that happen, either shareholders of the DFIs would have to agree to provide more of their resources on concessional terms for fragile states, or donors would have to match DFI investment with grants from aid budgets. Some investments already blend commercial with concessional finance, but we were told that constructing such packages is not easy, especially when the package is provided by more than one agency: which agency is prepared to take losses while the other does not? This requires examination of which financial instruments could be used, such as providing a first loss to DFIs or considering a different structure of subsidies or a risk guarantee.

A further path identified is to create the conditions for and develop companies ready to receive DFI finance. General and targeted private sector development programmes in fragile contexts are hard but, if they can create more companies such as EthioChicken, Indorama or HSA, the returns can be high.

A final path is to try to lower the transactions costs of lending in 10+1 countries, by devolving DFI finance to funds based in country, managed domestically by teams that may have lower administrative costs and that benefit from local knowledge, reducing the cost of searching for information to justify approval of funds. Locally managed funds established by donors exist; there may be scope to increase and expand them. If DFIs are to work more in fragile contexts, they need to have the incentives and tools to do so. This includes the staff to search for and close (small) investment deals to support food security in fragile contexts.

These approaches take time. Not much can be done in the short term. That said, thanks to the 511 investments that have been made in the past, the 10+1 countries are in better shape to address current crises than they would otherwise be. Additional investment now would support resilience in the future too.

Introduction

The challenges of food security and economic development in fragile contexts – low- and middle-income economies frequently subject to conflict, political instability, macroeconomic deficits and natural disasters, the effects of which commonly interact – are difficult to address. Fragile economies can grow, but all too often the gains from a growth spurt are lost to recessions (McKechnie et al., 2018). Running businesses can be difficult; business failure is more likely in settings of fragility, violence and conflict (World Bank, 2022a). Countries in fragile and conflict-affected situations (FCS) thus tend to have fewer and smaller investment opportunities. They have fewer sponsors that meet the scale, standards and financial backing of commercial investors and lenders (AfDB, 2022).

In the late 2010s and early 2020s, concern over food security has mounted, not least for FCS countries. We ask what more can be done to address food security in the most fragile of contexts by using private sector solutions. We focus on 14 countries (also called the 10+1 group) seen by the UK Foreign & Commonwealth Development Office (FCDO) as especially at risk of food crises, emergencies and famine: Afghanistan, Central African Republic (CAR), Democratic Republic of Congo (DRC), Ethiopia, Nigeria, Somalia, South Sudan, Sudan, Syria and Yemen and the region of Burkina Faso, Chad, Mali and Niger.

Working with development finance institutions (DFIs) to support private sector operators could be an option. This report examines the potential for the private sector to improve food security, specifically through use of DFI finance.

Operating in fragile contexts challenges DFIs, whose mandates often require them to invest in profitable projects, to return funds without loss. But it is not impossible. We find that DFIs already operate in fragile contexts, even though the share of DFI finance going to such countries is very low. Complementary papers on Ethiopia, Somalia and Yemen argue there are opportunities for private investment to improve food security. In this report, we argue that more can and should be done to attract DFI finance to fragile contexts. This may require a new narrative on supporting investment in fragile contexts.

DFIs address food security in differing ways. DFIs can support private sector solutions to stimulate higher incomes and to improve food systems – for example by investing in production, trade, storage, transport, retail and packaging.

We examine DFI practices and investments. In terms of investments, we find that volumes of DFI finance to the 10+1 group are low and the share of the 10+1 group in total DFI financing is also small, although it varies across DFIs. The 10+1 group attracts little attention from DFIs. Also, however, some additional risks from exposure to investment in that group would add only a little more risk to the overall DFI portfolios.

We also discuss ways in which we can get DFIs more interested in investing in the 10+1 countries, especially to address food security.

The first of these ways is to develop investee companies, which may take time. Successful companies will attract more finance whatever the risk position of the country. The second is to develop financial instruments to finance companies. The third is to encourage DFIs to have appropriate strategies for fragile contexts and for food security, including the use of appropriate financial instruments. Fourth and finally, increased human resources are needed for investment in fragile situations because operations take longer, given the complexity of context, while they are also more costly per unit of capital given the relatively small scale of investment opportunities. All these suggestions require more effective interactions between DFIs and their shareholders.

The structure of this report is as follows. Section 2 introduces DFIs and their general impact on development – and by extension on food security. Section 3 discusses the role of DFIs in fragile contexts and the link to food security, and highlights opportunities in Ethiopia and Somalia as examples. Section 4 presents a new database for investments in the 10+1 countries to address food security. Section 5 explores how to stimulate more DFI investment in the 10+1 countries, especially investments to improve food security. Section 6 concludes.

DFIs and their impact on development

DFIs increasingly feature in development debates. Shareholders such as aid agencies seek to promote private sector development, jobs and growth: they look to DFIs to do this. At the same time, shareholders and other groups are placing new demands on DFIs in their efforts to achieve goals on climate change and food security. In this new environment for DFIs, there are new roles, responsibilities and expectations, not least for their contribution to development and, more recently, to food security.

DFIs often have multiple objectives, such as to invest in sustainable private sector projects; to maximise impacts on development; to remain financially viable; and to mobilise private sector capital. Their core business is not to provide grants: DFIs need to get their money back, unless part of their investment is concessional, as in blended finance.

Many DFIs are publicly owned, for example British International Investment (BII), the German Investment Corporation (Deutsche Investitions- und Entwicklungsgesellschaft, DEG), Sweden's Swedfund and Norway's Norfund. Others, such as France's Promotion and Participation for Economic Cooperation (Promotion et participation pour la coopération économique, Proparco), the Netherlands Development Finance Company (Financierings-Maatschappij voor Ontwikkelingslanden, FMO), the Spanish Development Finance Company (Compañia Española de Financiación del Desarrollo, COFIDES) and the Italian Financial Institution for Companies Abroad (Società Italiana per le Imprese all'Estero, SIMEST) have mixed public and private ownership. The Swiss Investment Fund for Emerging Markets (SIFEM) is privately owned. The multilateral and regional DFIs have several national governments as shareholders.

DFIs provide finance – as loans, guarantees, equity investment – both to the public sector (most multilateral DFIs, including regional development banks such as the African Development Bank, AfDB) and to the private sector (e.g. the International Finance Corporation, IFC; BII; DEG; most of the European Bank for Reconstruction and Development, EBRD). DFI shareholders provide callable capital and endowments to the DFIs. DFIs can leverage in other sources of finance, including private finance.

In this report, we focus on DFIs that support the private sector. While the core business of DFIs is to invest using financial instruments, they also provide project-specific and general technical assistance (TA) and promote standards in the funds or companies in which they invest. DFIs may also manage concessional finance on behalf of their government shareholders.

DFIs support investment in developing countries by addressing market failures in capital markets and bringing in more capital, under longer tenure than would otherwise have been the case. DFI-supported investments create value and jobs and generate tax revenues; their investments have multiplier effects along supply chains; DFI investments may encourage further private investment.

While subsequent sections focus directly on food security, DFIs affect food security indirectly by raising aggregate incomes and making economies more productive. Studies of the macroeconomic impacts of DFIs (see te Velde, 2011; Massa et al., 2016) find evidence of the positive direct and indirect economic impacts of DFIs on growth, productivity and employment. For example, a 1 percentage point increase in the share of DFI investment in gross domestic product (GDP) increases average per capita incomes by 0.24% in Africa (Massa et al., 2016). DFI investments can increase labour productivity (Jouanjean and te Velde, 2013; Massa et al., 2016) through investments in higher-productivity sectors such as manufacturing or through investments in transport or energy infrastructure that enhances productivity. DFI investments increase employment both directly and indirectly (Jouanjean and te Velde, 2013).

Other positive impacts include the development of local financial institutions and infrastructure (Attridge, Calleja et al., 2019). DFIs are increasingly looking at how their investments contribute to the Sustainable Development Goals (SDGs) (see Marbuah et al., 2022). A joint ODI and European Development Finance Institutions (EDFI) essay series (Attridge, Sorenson and te Velde, 2019) suggests DFIs are likely to play an increasingly important role in achieving the SDGs.

As increasing amounts of aid are channelled through DFIs, DFI stakeholders (often donors, sometimes civil society organisations) expect DFIs to go beyond direct economic impacts to achieve the SDGs. Little attention has been paid so far to food security. Shah (2022) is an exception, arguing that DFIs need to consider all (Food and Agriculture Organization, FAO) dimensions of food security: availability, access, utilisation and stability.

Opportunities for DFIs to support food security in fragile contexts

There is no generally accepted definition of 'fragility' and 'conflict'. The World Bank characterises fragile and conflict-affected states as countries with high institutional and social fragility; and countries affected by violent conflict based on threshold number of deaths relative to the population (World Bank, 2022). The Organisation for Economic Co-operation and Development (OECD, 2020) definition of fragility considers degrees of risk exposure across economic, environmental, political, security and societal dimensions – a definition that broadly aligns with those in the latest FCS strategies of the African Development Bank (AfDB) (2022a) and the Asian Development Bank (ADB) (2021). See Annex 1 for definitions used by selected multilateral institutions and DFIs.

Firms in FCS face different economic and business environments compared with those in more stable countries: in FCS, markets are small and fragmented; informal businesses are pervasive; businesses are often controlled by political elites; and non-transparent rules, exclusion and rent-seeking are often seen (IFC, 2019a). Weak education means private firms do not have the skilled staff they need (Collier et al., 2019).

Starting and operating a business is difficult in many FCS countries, as investors and entrepreneurs face political instability, navigate through weak regulations and have to cope with deficiencies in basic infrastructure (Speakman and Rysova, 2015). Some countries may also face international financial sanctions.

Business failure is more likely in settings of fragility, violence and conflict (World Bank, 2022). Hence, FCS countries tend to have fewer and smaller investment opportunities. They have fewer sponsors that meet the scale, standards and financial backing of commercial investors and lenders (AfDB, 2022a).

Despite challenges, almost half of firms in FCS countries innovate by introducing new processes, products or services, even at smaller sizes and with less reliance on fixed assets, highlighting firms' potential for positive impacts in FCS (Collier et al., 2019). Value chains may be disrupted in fragile conditions but may still function during crises, or as soon as conflict abates (Hiller et al., 2014).

Enabling the private sector is critical to create jobs, deliver services, improve social cohesion and nurture inclusive growth in FCS (World Bank, 2022). Private sector support and market creation in FCS requires project development and support to pioneering firms, taking a broad approach towards regulatory reform and capacity-building while also addressing environmental and social issues (ibid.).

DFIs are in a unique position to provide patient finance for high-potential and adaptive firms operating in FCS environments, especially for firms – such as those within food supply chains – whose work may alleviate the impact of conflict and other shocks.

This section presents the strategic approaches of DFIs in FCS. Section 3.1 examines IFC's approach, complemented by the approaches of other DFIs. Section 3.2 focuses on constraints specific to food system value chains in FCS countries. Section 3.3 identifies key opportunities for DFIs to address these food value chain constraints, focusing on private sector opportunities in:

- inancing food production, agribusiness and agriculture sector resilience
- trade finance and financial sector development
- transport and energy infrastructure and

- other areas, such as advisory services.

Section 3.4 discusses food security concerns and private sector opportunities to address them in Ethiopia and Somalia

DFI approaches in fragile and conflict-affected situations: IFC and European DFIs

IFC

The World Bank Group (WBG) (i.e., the International Bank for Reconstruction and Development, IBRD; the International Development Association, IDA; the International Finance Corporation, IFC; the Multilateral Investment Guarantee Agency, MIGA; the International Centre for Settlement of Investment Disputes, ICSID) has engaged in FCS since the aftermath of World War II, not only through loans (e.g., reconstruction support) but also by classifying fragile situations since 2006 to recognise the constraints and development needs of FCS. The WBG focused more on FCS in IDA18 and in the 2018 IFC and IBRD capital increases, and in 2020, when it published its first strategy for FCS (World Bank, 2020).

From FY2006 to FY2019, Africa consistently held the largest number of World Bank projects in FCS. By value of lending, 70% of FCS projects were concentrated in eight countries: Afghanistan, Côte d'Ivoire, DRC, Iraq, Lebanon, Mozambique, Myanmar and Yemen (ibid.).

The WBG Strategy for Fragility, Conflict and Violence 2020–2025 recognises the central role of the private sector for sustainable development in FCS. Encouraging the private sector aims not only to create functioning markets but also to support international and local investors, so as to grow regional and local private sector champions, both of which can contribute to generating income and opportunities to mitigate FCS risks. The strategy aims to be flexible and adaptive to FCS country/regional contexts. It aims to enhance WBG operations and ensure coordinated approaches across WBG institutions for upstream project development and downstream capacity-building for the private sector.

IDA, IFC and MIGA are strengthening their joint efforts for private sector development in FCS countries. For instance:

- The IDA $2.5 billion Private Sector Window (PSW) was introduced by IDA18. This allows IDA to further scale up its investments in FCS and complements IDA's support for policy reforms to boost private sector-led growth.
- IFC has committed to increasing its share of investment commitments in IDA and FCS countries to 40% by FY2030, with 15–20% in IDA low-income countries (LICs) and IDA FCS countries.
- MIGA has prioritised FCS since 2005; its portfolio in FCS has increased continuously since 2013 to reach $2 billion in 2019.

IFC is the largest DFI focusing on private sector in developing countries and has a long history of engagement in FCS contexts (e.g., with Indonesia in the 1960s and Bosnia and Herzegovina in the 1990s). IFC accounts for about one-third of $1.3 billion in investment in FCS by the 15 largest DFIs, based on available data in 2016 (World Bank, 2020). IFC has formally included FCS as its strategic priority since 2010. Major IFC initiatives in FCS include the following:

- The Conflict-Affected States in Africa initiative was launched in 2008.
- FCS Africa was established in 2014.

- IDA PSW was launched in 2017 (IDA18 replenishment), a $2.5 billion IDA–IFC–MIGA PSW to catalyse private sector investment in IDA-only countries, with a focus on FCS. PSW is deployed through facilities extending access to local currency, blended finance and guarantees. Advisory funding for FCS through the Creating Markets Advisory Window supports the PSW, and provides funding to help build the capacity of the private and public sector, as a complement to the PSW.[2]
- FCS and IDA LIC targets were included in the 2018 IFC general capital increase.
- Alignment has been carried out with the 2020–2025 WBG strategy and targets.
- The Africa Fragility Initiative (a multi-donor, $74 million, five-year programme) was launched in March 2022 covering 32 African countries affected by fragility and conflict (IFC, 2022d).

IFC's long-term financing commitment (excluding trade finance) in FCS seems low, at a 4–5% share of its total financial commitments, although advisory services in FCS seem to have a higher share (20%) of total IFC spending (World Bank, 2020). There is little information on the breakdown of IFC's trade financing in FCS by country. Nevertheless, the World Bank (2020) indicates a 'significant increase' in IFC's short-term trade finance to FCS. IFC's annual report for FY2021 indicates that 75% of its trade finance was invested in IDA and FCS countries (IFC, 2022c).

IFC covered three-quarters of recipient countries classified as FCS over 10 years up to 2019 (IFC, 2019a). For other FCS countries, IFC was absent because of a lack of viable investment opportunities, driven by:

> *1) widespread conflict and/ or the absence of rule of law; 2) an inhospitable investment climate; or 3) very small economies where the investment sizes were too small for a large investor such as IFC (p. 22)*

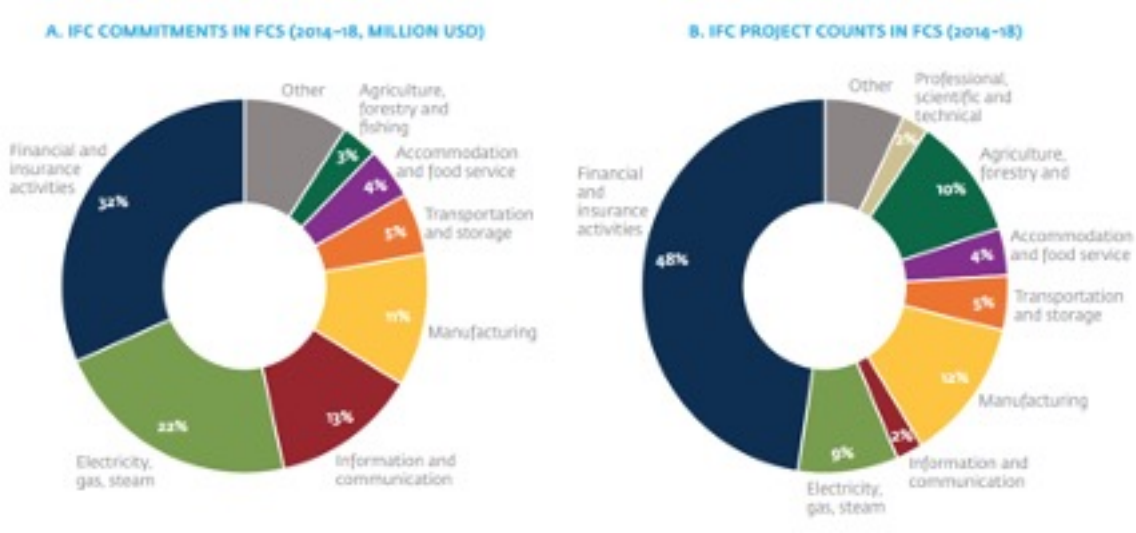
Fewer investment opportunities in FCS may partially explain the generally small size of IFC investment per FCS country of below $10 million annually in half of the FCS countries where IFC was present between 2014 and 2018 (IFC, 2019a).[3] IFC's FCS portfolio shows generally sound project and loan performance but profitability has lagged compared with non-FCS countries, owing to higher administrative cost per dollar invested and smaller project size in FCS (World Bank, 2020).

IFC investments in FCS are dominated by financial and insurance activities (32% of funds invested; 48% of projects) between 2014 and 2018 (IFC, 2019a; Figure 1). IFC has also dedicated programmes and finance to enhance food security, such as the IFC Global Food Safety Advisory Program; IFC's management of private sector financing of the multi-donor-funded Global Agriculture and Food Security Program (GAFSP); the $1 billion IFC Global Trade Supplier Finance (GTSF) facility; and the new $6 billion IFC Global Food Security Financing facility, launched in October 2022. Specific projects by IFC and other major DFIs in the food sector in FCS are presented in Section 4.

[2] https://www.ifc.org/content/dam/ifc/doc/mgrt/ida18-ifc-miga-psw.pdf

[3] For others, over $40 million in 20% of FCS countries and between $10 million and $40 million in 30% of FCS countries (IFC, 2019a).

FIGURE 1 IFC INVESTMENT IN FCS COUNTRIES BY SECTOR (% SHARE)



Source: IFC (2019a)

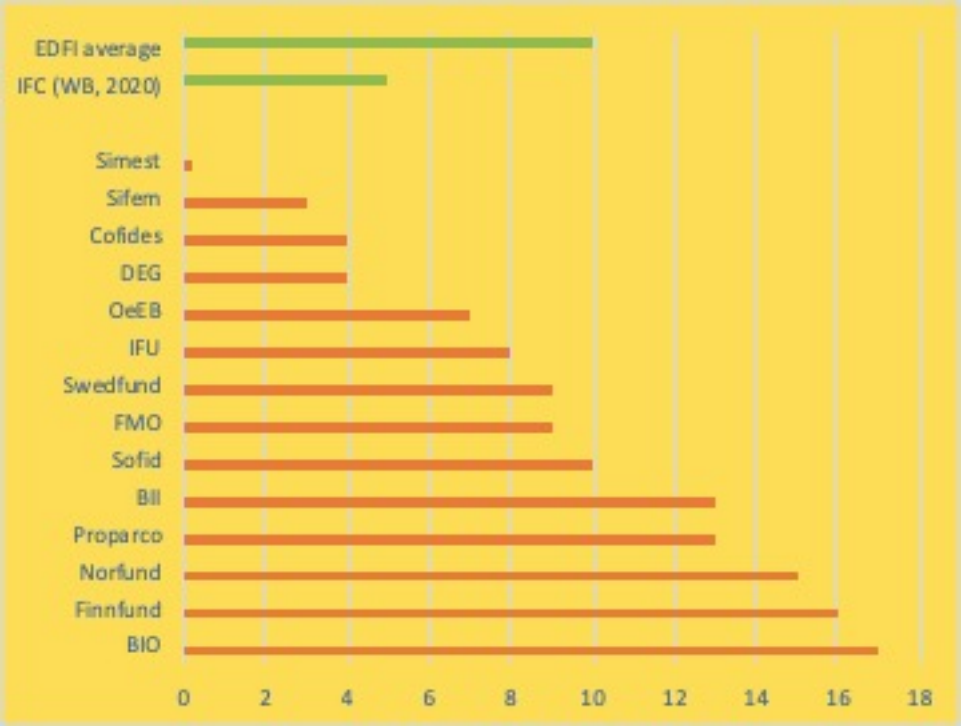
European DFIs

While the IFC is the largest DFI, the European Investment Bank (EIB), ADB, AfDB, the Inter-American Development Bank (IADB) and the collection of bilateral European DFIs also provide significant investments. European DFIs invest across a range of low- and middle-income countries. Their consolidated portfolio was worth €48 billion in 2021.[4] The total value of new European DFI investments in 2021 was €8.5 billion, 15% more than the year before. European DFIs managed €0.9 billion in blended concessional finance in 2021, up from €0.8 billion in 2020. The value of technical assistance projects was €36.8 million in 2021.

The European DFI portfolio in fragile states at the end of 2021 amounted to €3.4 billion (2020: €2.8 billion). Hence, a small share of total DFI exposure is invested in fragile contexts. New investments by European DFIs in fragile states (according to the FCAS definition of the World Bank), based on EDFI data, amounted to €490 million in 2021, of which nearly half was invested in Nigeria and a third in the financial sector. Investments in fragile states have gone up from €178 million in 2012, or by an annual average of 12% over the past decade. The share of portfolio investment in FCAS varies over time and by institution (Figure 2).

[4] This is $56.8 based on 1 € = 1.183 $ (in 2021).

FIGURE 2 SHARE (%) OF INVESTMENTS IN FCS COUNTRIES IN DFI STOCK, 2021



Note: IFC and ADB represent 2022,

Source: EDFI data, World Bank (2020) for IFC (covering accumulated commitments over 2010–201

While BII has no formal mandate or investment targets in FCS contexts, its 2022–2026 technical strategy indicates that it aims to engage significantly in fragile states (BII, 2021a). In addition, BII and FMO are key sponsors of the Africa Resilience Investment Accelerator (ARIA) created in 2021. The ARIA comprises 16 DFIs and aims to unlock investment in fragile states in Africa through collective influence and by pooling expertise to overcome the challenges of providing capital in these countries (BII, 2021b). ARIA focuses on Benin, Burkina Faso, DRC, Ethiopia, Liberia and Sierra Leone. As of June 2023, ARIA had identified more than 40 viable investment opportunities in Sierra Leone, some of which are in the DFI pipelines.[5]

BII's engagement in the poorest and extremely fragile contexts would be typically through regional companies and platforms, specialist intermediaries and focused fund managers, and project finance if following multilateral development banks with preferred creditor and political risk guarantees (BII, 2021a). Selected channels of investment were driven by BII learnings from its 2012–2021 operations, which secured neither effective impact nor commercial success through directly held investments in extremely fragile markets (ibid.). Nevertheless, some BII direct investments are showing company success or development impact or both, such as:

[5] Based on BII feedback.

- Zambeef in Zambia: BII's $65 million direct equity investment in Zambeef Products plc in 2016 has enabled Zambeef to grow its cold chain food processing and expand its distribution and retailing platform with Zambia and neighbouring countries. Farmers also benefit from Zambeef's advice on increasing yields and caring for livestock, up-to-date price information and treatment of cattle diseases (BII, 2023a).

- DAL Group through Invictus Trading in Sudan: BII's $50 million investment in 2023 is expected to support wheat imports and distribution of DAL Group, Sudan's largest wheat importer. The investment is estimated to finance the annual purchase of 280,000 MT of wheat (BII, 2023b).

DFI activities relevant to food supply chains

This section maps out key DFI activities in areas most relevant to food supply chains – namely, financing agricultural production and agribusiness, trade finance, financial sector development, transport infrastructure and energy, and advisory services. DFI activities and selected examples in FCS have mostly been taken from IFC and, to a lesser extent, BII activities and programmes. Further work can cover other DFIs in more detail.

Financing agricultural production and agribusinesses

DFIs may finance firms involved in agricultural production and businesses within the food value chains through various instruments. IFC financing can be in the form of:

DFIs may finance firms involved in agricultural production and businesses within the food value chains through various instruments. IFC financing can be in the form of:

- loans – typically at variable interest rates, generally with maturity for 7–12 years (but others possible), primarily in convertible currencies (e.g., US dollar, euro) but may also be made in local currency. Lending can be to intermediary banks, leasing companies or other financial institutions for on-lending

- equity investment – direct investment in firms at usually 10–20% of the company's equity, usually denominated in local currency

- debt securities syndication – securities issued for firms seeking to access global capital markets and attract new investors

- blended finance – to crowd in private finance otherwise not available to projects with high development impact. IFC blends concessional funds, typically from development partners, with its own commercial funding (IFC, 2021a) and venture capital, on-lending to farms and firms through financial institutions. IFC's $75 million funding to Hayel Saeed Anam (HSA) Group, Yemen's largest food conglomerate, demonstrates DFI support using blended finance. The financing package for HSA comprises $55 million from IFC's own account, a $20 million syndicated loan from FMO and a first loss guarantee up to 50% from the IDA PSW (IFC, 2021b).

DFIs may also support companies dedicated to agricultural development and resilience in FCS (e.g., climate-resilient seeds, modernised irrigation systems, etc.). For example, IFC worked with Netafim, a leader in irrigation technology, to expand access to drip irrigation across Niger between 2016 to 2019 (IFC, 2019b). In Nigeria, IFC helped matched local businesses with start-ups developing sustainable cooling such as solar refrigeration, refrigerated trucks and low-cost insulated facilities (Buckholtz and Canete, 2023).

Trade and supply chain finance

DFIs can support traders of food and farm inputs through trade finance instruments, typically channelled via partnerships with financial institutions (especially local). Some examples of IFC trade and supply chain finance programmes are as follows:[6]

- The Global Trade Finance Program. The GTFP provides guarantees (up to 100%) on trade-related payments of approved financial institutions. An umbrella guarantee covers country and commercial risks. Partner bank trade transactions may include letters of credit, trade-related promissory notes and bills of exchange, bid and performance bonds, advance payment guarantees and supplier credits for the import of capital goods. The GTFP also supports bank funding for short-term pre-export financing, and offers complementary TA. As of end of FY2020, the GTFP had covered over 68,000 trade transactions and supported over $66.5 billion in emerging market trade, without a single loss since inception in 2005. In FY2020, the GTFP supported over $3 billion in trade in IDA countries.[7]

- The Global Trade Liquidity Program. Through the GTLP, IFC enters into funded or unfunded risk participation agreements with global and regional banks, where IFC's risk participation can be up to 50% of the total trade portfolio. As of the time of writing, the GTLP has supported over $53 billion in global trade volume through its support to more than 400 financial institutions in 69 countries.[8]

- The Critical Commodities Finance Program. IFC shares risk with global and regional banks to expand their emerging market commodities trade portfolios. In particular, the CCFP finances exports and imports of agricultural commodities and inputs globally, and imports of energy into the poorest countries. As of the time of writing, the CCFP supported over $23.5 billion in trade to 200 firms in 45 countries, 7 of which are conflict-affected countries.[9]

- The Global Warehouse Finance Program. IFC provides emerging market banks with liquidity or risk coverage backed by warehouse receipts as collateral, which in turn can be used to provide short-term loans or guarantees to agricultural producers and traders. The GWFP also provides advisory services to banks to promote the acceptance of warehouse receipts as collateral for short-term loans. To date, the GWFP has supported over $6 billion in global trade, benefiting more than 750,000 farmers in 66 countries, of which 7 are FCS.[10]

- Working Capital Systemic Solutions. WCS provides short-term loans to emerging market banks in markets where foreign exchange is scarce. By providing dollar liquidity, a WCS loan enables a local bank to meet its clients' trade finance and working capital for small entrepreneurs and exporters. To date,

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[6] Based on IFC website and IFC (2017a).
[7] Based on www.ifc.org/en/what-we-do/sector-expertise/financial-institutions/global-trade-finance (accessed March 2023).
[8] Based on www.ifc.org/wps/wcm/connect/industry_ext_content/ifc_external_corporate_site/financial+institutions/priorities/global+trade/gtlp (accessed March 2023).
[9] Based on www.ifc.org/wps/wcm/connect/industry_ext_content/ifc_external_corporate_site/financial+institutions/priorities/global+trade/critical+commodities+finance+program (accessed March 2023).
[10] Based on www.ifc.org/wps/wcm/connect/industry_ext_content/ifc_external_corporate_site/financial+institutions/priorities/global+trade/gwfp (accessed March 2023).

WCS has supported over $2.4 billion in global trade, benefiting nearly 12,000 firms (most of them small and medium enterprises, SMEs) in 18 emerging market countries, of which half are IDA countries.[11]

- Structured Trade Commodity Finance. In cooperation with partner banks, STCF specialists take a project-by-project approach to provide liquidity and/or risk mitigation across the value chain, benefiting producers, processors, importers and distributors, mostly in agriculture and energy. To date, STCF has supported over $3 billion in trade of energy and agricultural commodities, all in IDA countries including Côte d'Ivoire, Ethiopia, Ghana, Mauritania and Moldova.[12]

- Global Trade Supplier Finance Program. The GTSFP provides short-term financing (directly or via financial institutions) to suppliers selling to global or domestic corporates by purchasing and discounting invoices accepted for payment by pre-approved participating buyers. This provides suppliers with working capital by converting sales receivables to immediate cash; suppliers can also access lower-cost financing based on the superior credit risk of the buyer. Since the GTSFP's launch in 2012, the programme has disbursed $10.7 billion to over 2,500 suppliers across 28 countries.[13]

IFC (2019a) suggests that trade finance is often IFC's first point of entry in FCS markets, and among IFC's earliest engagements with the financial sector. While there is little information on IFC's country-level trade financing in FCS, below are some examples:

- a $6 million pre-harvest loan facility (warehousing finance) to cotton growers in Mali (Compagnie malienne pour le développement des textiles) in 2013/14, used to finance pre-harvest loans, subsequent purchase of seed cotton from farmers, and the transit and storage of cotton, and to meet other working capital needs (IFC, 2017a)

- $50 million in trade finance (warehousing finance) through Nedbank to support rice importers in Liberia (IFC, 2015)

- $24 million in trade financing through Vista Bank's subsidiaries in Guinea and Burkina Faso ($12 million each), to help the banks finance imports of foodstuffs, raw materials, refined oil products, equipment and consumer goods (IFC, 2022c).

BII's trade and trade-related financing to support the importing of agricultural inputs in FCS countries includes trade finance facility and/or risk-sharing arrangements with Access Bank PLC (e.g., covering FCS countries such as DRC, Mozambique, Nigeria), Eco Bank (e.g., Burkina Faso, Chad), SMBC Bank International (e.g., Ethiopia, Nigeria) and Société Générale (e.g., Burkina Faso, Nigeria).[14] BII also supports imports of machinery to increase the productivity of agricultural exporters, which is the aim of BII and FMO's joint $40

[11] Based on www.ifc.org/wps/wcm/connect/industry_ext_content/ifc_external_corporate_site/financial+institutions/priorities/global+trade/working+capital+systemic+solutions (accessed March 2023).
[12] Based on www.ifc.org/wps/wcm/connect/industry_ext_content/ifc_external_corporate_site/financial+institutions/priorities/global+trade/structured+trade+commodity+finance) (accessed March 2023).
[13] Based on www.ifc.org/wps/wcm/connect/industry_ext_content/ifc_external_corporate_site/financial+institutions/priorities/global+trade/gtsf2 (accessed March 2023).
[14] Based on BII interviewee responses, complemented by information on FCS countries covered in BII (2021a) and investment information from the BII website accessed in November 2023.

million commitment to Dashen Bank in Ethiopia (BII, 2023c). Through this project, BII and FMO became the first foreign financial institutions to provide long-term funding to Ethiopia's financial services, to help catalyse more private capital in the country (ibid.).

Financial sector development

DFIs have been increasing the lending capacity of partner financial institutions in FCS by extending financing to them, which allows them to on-lend to firms, farms and traders along the food supply chain. Most of the trade financing to FCS markets by IFC and BII is channelled through financial intermediaries.

DFIs often offer advisory/technical assistance to partner financial institutions, to develop their skills in financial instruments (e.g., trade finance, using alternative collaterals), or to build correspondent bank relationships.

DFIs can also promote financial sector development by helping private equity funds enter and invest, including in food supply chain firms and farms in FCS. For example, IFC's SME ventures programme provides both risk capital (i.e., forms of finance with higher risk tolerance than bank loans) to entrepreneurs and fund managers in fragile and frontier countries.[15] In this way, IFC helped fund a logistics company in Liberia through support to a local capital risk fund (IFC, 2016a). Other DFIs, such as FMO and BII, also support venture capital funds.[16] More generally, DFIs engage in financial development (e.g., developing capital markets, enabling local currency loans, digital finance, etc) that may indirectly benefit private firms in food supply chains.

Transport and energy infrastructure

DFIs may invest in transport infrastructure and related advisory services, to reduce transport costs, facilitate international trade and develop local markets. IFC's transport portfolio covers ports, airports, roads, inland waterways, logistics, railways, airlines, shipping and urban transport.

Improvements in transport can reduce time and costs in international food trade and local distribution. Some DFI activities in the transport sector include:

- IFC's $2.2 million equity investment in 2014 with Nafith International (leading logistics company) to modernise and manage four major ports in Iraq (IFC, 2017b)
- BII's investment with DP World, to fund expansions of the Berbera port and associated logistics facilities in Somaliland and other African countries (BII, 2021a)
- IFC's $70 million loan to Mediterranean Shipping Company, the world's second-largest shipping line, to install 150 water treatment systems aboard its ships to prevent transfer of species that travel in ballast water (IFC, 2017c)[17]

[15] See www.ifc.org/wps/wcm/connect/Industry_EXT_Content/IFC_External_Corporate_Site/Funds/Priorities/SME+Ventures and IFC (2018).
[16] See FMO (https://www.fmo.nl/venturesprogram-funds-portfolio) and BII (https://www.bii.co.uk/partner-with-us/patient-capital/) websites.
[17] Ballast water is carried by ships for stability on shipping routes, and then released into foreign ecosystems hundreds or thousands of miles from where it was collected. An estimated 10,000 species are carried every day in ships' ballast water

- through the IFC SME venture programme, support to a local risk capital fund to fund and technically assist Global Logistics Services Liberia, a leading company handling incoming airfreight and transporting medical supplies from the airport (IFC, 2016a).

DFIs finance energy and energy-saving infrastructure and technologies to increase agricultural productivity and enhance food distribution. Some examples (though in a non-FCS context) are IFC's support to KTDA Power Company Limited (Kenya) for run-of-river small hydropower plants to power tea factories (IFC, 2016b). IFC's partnership with Alexbank (Egypt) finances solar-powered irrigation pumps, reducing farmers' reliance on diesel-powered generators and boosting their productivity and income (IFC, 2020). BII's investment with AFEX covering Kenya, Nigeria and Uganda targets building 20 modern warehouses with software for post-harvest pricing and smart storage solutions (BII, 2023d).

Advisory services

DFI advisory services, often with companies, financial institutions, industries and governments, help create markets and mobilise private capital (see IFC, 2017a). IFC investment and advice are often combined, for example with advisory services offered with trade and supply chain financing.

IFC has specific advisory services for agribusinesses, particularly to improve productivity and standards by creating efficient value chains; ensuring food security; and providing economic, social and environmental benefits for smaller farming enterprises and communities.[18]

IFC advisory services that may directly or indirectly affect food supply chains include:

- increasing financial access, especially for micro, small and medium enterprises (MSMEs)
- supporting regulatory changes to improve business practices
- corporate advice, focusing on how to link large corporations to smaller firms within their supply chains
- examining measures to promote environmental and social sustainability in businesses
- strengthening stability of financial institutions, by helping them quantify critical risks and identify mitigating measures for potential financial crises
- advising governments on how to structure and implement large public–private projects for power, water and transport.

Food supply value chain system, constraints and opportunities for DFI interventions

The food system and food supply value chains

The food system has three core constituents – namely, food supply chains, food environments and consumer behaviour – as framed by the High Level Panel of Experts on Food Security and Nutrition (HLPE,

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tanks. The annual cost of damages from these invasive species is estimated at $7 billion (https://www.ifc.org/content/dam/ifc/doc/mgrt/ballast-infographic-04.pdf).

18 www.ifc.org/wps/wcm/connect/corp_ext_content/ifc_external_corporate_site/solutions/products+and+services/advisory/advisory

2017). In turn, food value chains have four main components: food production, storage and distribution, food processing and packaging, and retail and markets.

The food system is the largest private sector provider of jobs in many FCS. Agriculture accounts for over half of total employment in FCS, a share that becomes higher when the broader food system is considered (Townsend et al., 2021). However, there is often a lack of private investors in food systems in FCS, especially in transport and processing, driven by instability and insecurity that reduce returns on investment.

Food supply value chain constraints

Food production

Agricultural production in FCS is characterised by low productivity. Value added per worker in agriculture, forestry and fisheries in 2019 was only about half in FCS ($1,761 constant 2015 US$) of what it was in low- and middle-income countries ($3,333) (WDI 2023).

Low productivity is exacerbated by extremely low access to finance for agriculture in FCS, where the formal finance sector is weak, underdeveloped or nearly collapsed. In 2020, domestic credit to the private sector in FCS was just 16.6% of GDP, slightly higher than in LICs (14.4% of GDP) but far below that in middle-income countries (MICs) (120% of GDP) and the world average (147% of GDP) (WDI 2023). The share of credit to agriculture is especially low in FCS. In Yemen, agriculture and fisheries' share of bank loans hovered around just 2.5% between 2014 and 2017 (Raga et al., 2021).

With low agricultural productivity, many FCS import food (Calì, 2015; Townsend, et al, 2021). In 2019, while worldwide food imports comprised only 8% of goods imports, the share ranged between 27% and nearly 40% in conflict-affected countries Afghanistan, Niger and Yemen (WDI 2023).

Food importers in FCS face persistent challenges. FCS have the poorest trade and trade-related infrastructure (index score 2.1, with 5 being the highest), compared with low- and middle-income countries (2.4) and the world average (2.8) as of 2018 (WDI 2023), which raises costs for food importers and distributors. In DRC, a country in fragility and conflict for most of the past 40 years, only 6 of the 26 provincial capitals can be reached by road from Kinshasa, and logistics infrastructure at the main port of Matadi and along the Congo River suffers from poor maintenance (IFC, 2022a).

Dependence on food imports leaves FCS vulnerable to global price shocks and disruptions to global supply chains, which strain and add costs to importing, pushing up the price of food. In Sudan, wheat is the main staple in urban areas. The country produces 15% of the wheat it consumes and imports the rest, with around 60% of imported wheat sourced from Russia (FEWS, 2022). The Russia–Ukraine war and already high world prices have limited the ability of the government and the private sector to import essential food (ibid.). The Russia–Ukraine war has exacerbated existing problems in Sudan, particularly persistent shortages of hard foreign currency and high inflation (ibid.).

Storage and distribution

Limited storage in FCS can lead to high post-harvest losses (Global Panel, 2021). For lack of storage (including cold storage), smallholder farmers sell their products soon after harvest even at low prices, while high transport costs reduce returns to farmers (HLPE, 2017).

Post-harvest losses (i.e., after harvesting at the farm and at the transport, storage, wholesale and processing levels) were, in 2020, estimated to be highest for West Africa (with countries in or in periphery of countries in

active conflict) at 24.8%, compared with least developed countries (18.9%), small island developing states (SIDS) (17.3%) and the world average (13.3%).[19] FCS countries also perform the poorest in terms of overall logistics (2.34 index score), even when compared with LICs (2.35) or lower-middle-income countries (2.57) as of 2018 (WDI 2023).

Processing and packaging

Processors and packers of food in FCS face difficulties in working with local suppliers, including the upfront costs of training suppliers, the need for tight quality control and supervision, a lack of contract enforcement and the relatively high cost of locally produced packaging compared with imported materials (see Agapitova et al., 2019 for examples from DRC).

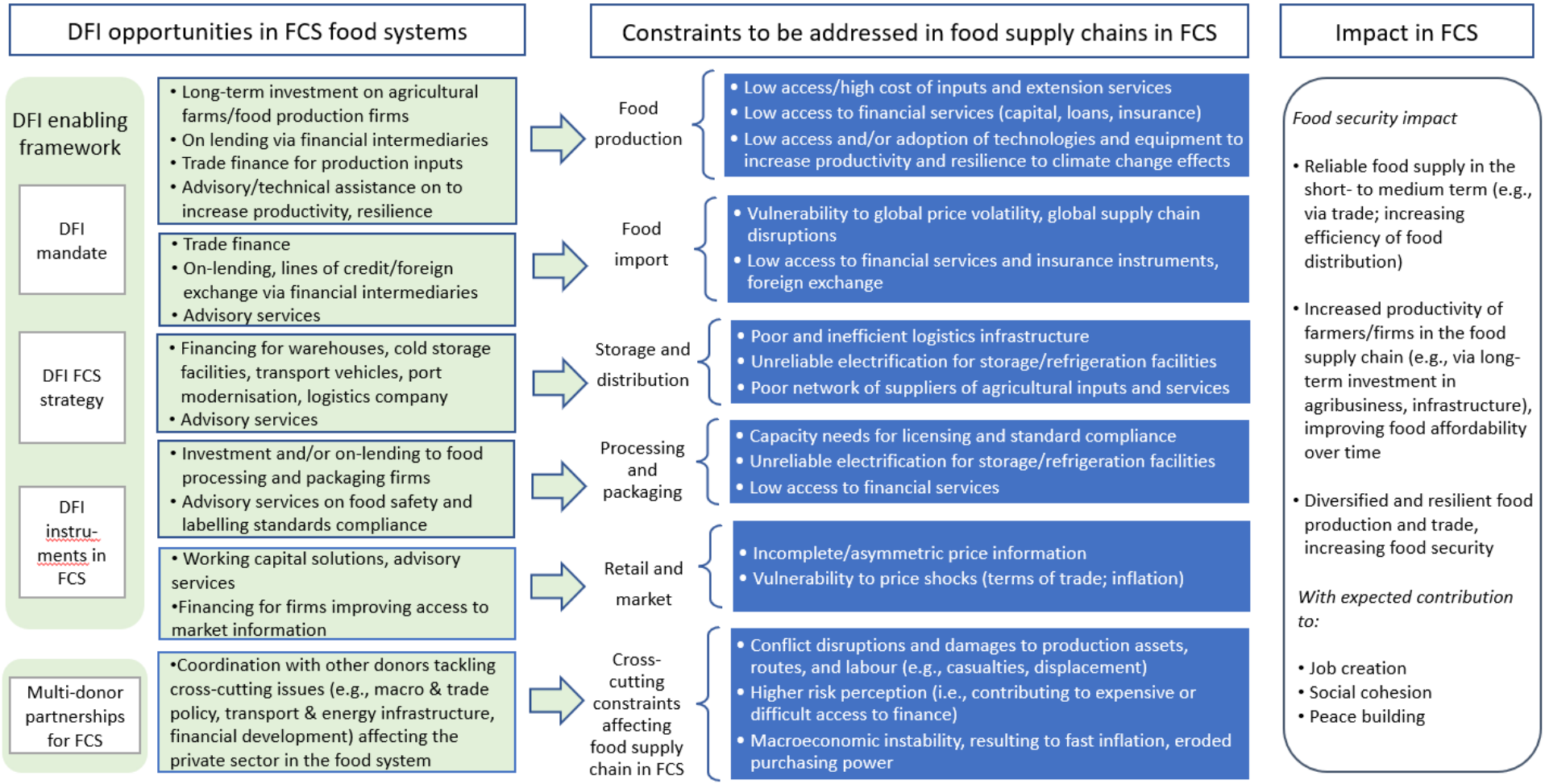
Food retail and markets

Food retail and markets in FCS are challenged by asymmetric information on market prices, lack of access to technology and extension services, poor farm-to-market transport infrastructure and lack of markets during intense conflict. Market disruption and variable harvests can lead to volatile food prices. Sometimes, cash transfers without accompanying food aid may also induce food price escalations (Townsend et al., 2021).

DFIs may be able to help in FCS by addressing constraints in supply chains, by capitalising supply chain businesses (directly or indirectly through on-lending or multinational companies/local conglomerates) and by providing TA. These activities are already being conducted by DFIs (Section 3.2) and thereby help increase availability of food and reduce its cost in FCS. (Figure 3).

[19] www.fao.org/sustainable-development-goals/indicators/1231/en/ (accessed 1 March 2023).

FIGURE 3 DFI OPPORTUNITIES IN ADDRESSING FOOD SUPPLY CHAIN CONSTRAINTS IN FCS


DFI opportunities in FCS food systems
Constraints to be addressed in food supply chains in FCS
Impact in FCS
DFI enabling framework
DFI mandate
DFI FCS strategy
DFI instru-ments in FCS
Multi-donor partnerships for FCS
• Long-term investment on agricultural farms/food production firms
• On lending via financial intermediaries
• Trade finance for production inputs
• Advisory/technical assistance on to increase productivity, resilience
• Trade finance
• On-lending, lines of credit/foreign exchange via financial intermediaries
• Advisory services
• Financing for warehouses, cold storage facilities, transport vehicles, port modernisation, logistics company
• Advisory services
• Investment and/or on-lending to food processing and packaging firms
• Advisory services on food safety and labelling standards compliance
• Working capital solutions, advisory services
•Financing for firms improving access to market information
•Coordination with other donors tackling cross-cutting issues (e.g., macro & trade policy, transport & energy infrastructure, financial development) affecting the private sector in the food system
Food production
Food import
Storage and distribution
Processing and packaging
Retail and market
Cross-cutting constraints affecting food supply chain in FCS
• Low access/high cost of inputs and extension services
• Low access to financial services (capital, loans, insurance)
• Low access and/or adoption of technologies and equipment to increase productivity and resilience to climate change effects
• Vulnerability to global price volatility, global supply chain disruptions
• Low access to financial services and insurance instruments, foreign exchange
• Poor and inefficient logistics infrastructure
• Unreliable electrification for storage/refrigeration facilities
• Poor network of suppliers of agricultural inputs and services
• Capacity needs for licensing and standard compliance
• Unreliable electrification for storage/refrigeration facilities
• Low access to financial services
• Incomplete/asymmetric price information
• Vulnerability to price shocks (terms of trade; inflation)
• Conflict disruptions and damages to production assets, routes, and labour (e.g., casualties, displacement)
• Higher risk perception (i.e., contributing to expensive or difficult access to finance)
• Macroeconomic instability, resulting to fast inflation, eroded purchasing power
Food security impact
• Reliable food supply in the short- to medium term (e.g., via trade; increasing efficiency of food distribution)
• Increased productivity of farmers/firms in the food supply chain (e.g., via long-term investment in agribusiness, infrastructure), improving food affordability over time
• Diversified and resilient food production and trade, increasing food security
With expected contribution to:
• Job creation
• Social cohesion
• Peace building

Source: Authors

Private sector solutions to address food security concerns in Ethiopia and Somalia

There is a clear role for DFIs to address constraints in food value chains. This section reviews private sector opportunities identified in Ethiopia and Somalia. Before providing details for these countries, we discuss food security concerns in all 10+1 countries based on a complementary paper (ODI, 2023a) and assess the relative position of Ethiopia and Somalia.

Food security concerns in 10+1 countries

Lack of physical access to food and/or high prices may lead to food insecurity. The classification by the Integrated Food Security Phase Classification (IPC) among 10+1 countries between 2021 and 2023 indicates a weighted 20% share of the population (118 million people) experiencing acute food insecurity (IPC Phase 3 and above), and an additional 30% of the population (at least 154 million people) dealing with moderate food insecurity (IPC Phase 2) (Table 1).

Among the 10+1 countries, South Sudan experiences the highest level of acute food insecurity (63% of the population), followed by around half of the population in Afghanistan, CAR and Yemen. Burkina Faso, Chad, Mali, Niger and Nigeria have less than 10% population under IPC Phase 3+ but another 11–25% of the population experience moderate food insecurity. Among all 10+1 countries, levels of acute and moderate food insecurity are lowest in Mali, at 14% of population. Ethiopia and Somalia are in between these extremes, with shares of 38% and 37%, respectively.

TABLE 1 FOOD INSECURITY IN 10+1 COUNTRIES, 2021–2023

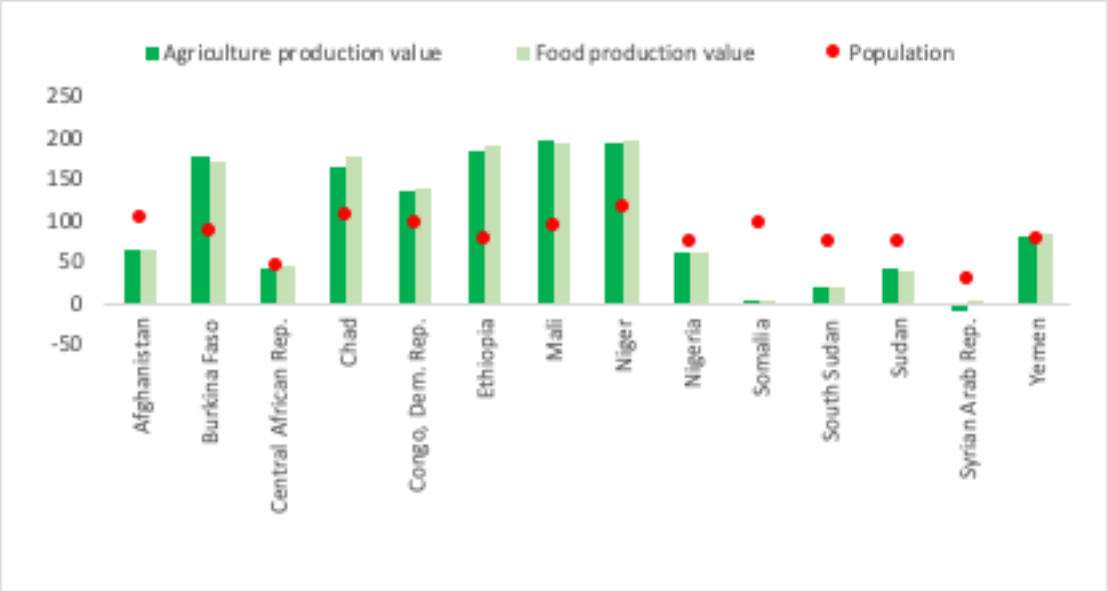
Country	Population	Number of people in IPC Phase 3+ (acute food insecurity)	Share of population in IPC Phase 3+	Number of people in IPC Phase 2 (moderate food insecurity)	Share of population in IPC Phase 2	Phase2+	Share of population in IPC Phase 2+
Afghanistan	43,269,552	19,903,994	46%	14,300,733	33%	34,204,727	79%
Burkina Faso	24,397,322	2,195,759	9%	4,277,588	18%	6,473,347	27%
CAR	6,102,737	2,990,341	49%	1,865,230	31%	4,855,571	80%
Chad	17,332,917	1,039,975	6%	2,658,576	15%	3,698,551	21%
DRC	102,168,575	24,520,458	24%	47,192,223	46%	71,712,681	70%
Ethiopia	19,962,946	7,386,290	37%				
Mali	25,362,900	760,887	3%	2,915,872	11%	3,676,759	14%
Niger	27,270,600	2,454,354	9%	6,398,059	23%	8,852,413	32%
Nigeria	196,352,200	17,671,698	9%	49,844,408	25%	67,516,106	34%

Country	Population	Number of people in IPC Phase 3+ (acute food insecurity)	Share of population in IPC Phase 3+	Number of people in IPC Phase 2 (moderate food insecurity)	Share of population in IPC Phase 2	Phase2+	Share of population in IPC Phase 2+
Somalia	17,127,447	6,508,430	38%	3,374,458	20%	9,882,888	58%
South Sudan	12,323,810	7,764,000	63%	3,080,000	25%	10,844,000	88%
Sudan	48,367,381	7,738,781	16%	17,746,553	37%	25,485,334	53%
Syria	*No data*						
Yemen	31,908,491	16,911,500	53%				
Total	**571,946,877**	**117,846,467**		**153,653,700**		**247,202,377**	
Share of population (%, weighed by available data)			21%		30%		

Source: ODI (2023a)

Increasing populations and incomes could drive higher demand for food. Over the past two decades, the population has doubled in most of the 10+1 countries. Production of food has grown more slowly than the population in Afghanistan, Somalia, South Sudan, Sudan and Syria, while Sahelian countries (Burkina Faso, Chad, Mali and Niger), DRC and Ethiopia have produced food faster than population growth.

FIGURE 4 VALUE OF AGRICULTURAL AND FOOD PRODUCTION AND POPULATION (% CHANGE 2000–2021)



Note: Production values in constant 2014–2016 international US$. Data available for South Sudan and Sudan are limited to 2012–2021.

Source: Authors' computations based on FAO and WDI data.

Private sector and DFI opportunities in Ethiopia

Ethiopia has not been significantly affected by the increase in world prices of wheat and other food as it is less reliant on them. The increase in the price of fertilisers has worsened the impact of bad weather and led to reduced yields and production. Constraints to food production include:

- land tenure and access to finance issues, including residency requirements
- a failure of financial institutions to develop adequate instruments
- limited availability of critical locally available inputs and services for farmers.

Ayele et al. (2023) identify a range of private sector opportunities that DFIs can address, including:

- guarantees for working capital to acquire inputs
- seed production, particularly for the horticulture sector
- communal silos and/or silo bags for storage on farms
- additional investments in and around Djibouti port.

Private sector and DFI opportunities in Somalia

While food consumption in Somalia doubled between 2000 and 2021, mainly because of population growth, food production fell significantly over this period. Food imports were up from 5% to 50% (including unrecorded imports) of total food consumption over this period. Barriers to importing food include high import duties, high costs of and barriers to internal trade in Somalia, lack of international banking standards and systems, and poor storage and port infrastructure.

Mendez-Parra and Hassan (2023) identify a range of private sector opportunities that DFIs can address, including:

- investing in ports and storage, through partnerships with port operators to expand grain and other bulk storage facilities in Bossaso, Berbera, Mogadishu and Kismayo
- investing in food processing, such as dry pasta production
- providing trade finance for small and medium-sized traders by lines of credit and technical support, to enable Somali financial institutions to extend credit support to importers
- addressing fragmentation of the Somali market by reducing trade barriers.

DFI approaches to food security in fragile contexts

This section reviews how DFIs address food security issues in selected countries. It focuses on the 10+1 group of countries, summarising DFI activities within these countries (Section 4.1); reviewing DFI food security activities based on a new database of individual DFI investments (Section 4.2); and taking a deeper look at what individual DFIs are doing in terms of food security in the 10+1 group of countries (Section 4.3).

Summary of DFI activities in the focus countries

We provide an overview of DFI activities in the group of 10+1 countries, by distribution and type of investments, between 2012 and early 2023 for selected DFIs including multilateral DFIs – IFC, ADB, AfDB, EIB and the GAFSP – and bilateral DFIs – BII,[20] FMO, DEG, Norfund, Proparco, the US International Development Finance Corporation (DFC)[21] and Finnfund. We have only included DFIs whose investment data are publicly available. The review covers 511 investments, filtered from an initial list of 696 investments. Data by categories for the investments are as in Table 2.

TABLE 2 SUMMARY INFORMATION FOR INVESTMENT DATA

	Country	Investment name	Year	Sector	Instrument used	Investment amount
Available data	511	511	471	511	426	323
Missing data	0	0	40*	0	85**	188**

Note: * Although the investment year is missing, data sources indicate they are either active investments or occurred from 2012 onwards. ** Classified as 'undisclosed'.

Source: Authors' calculations

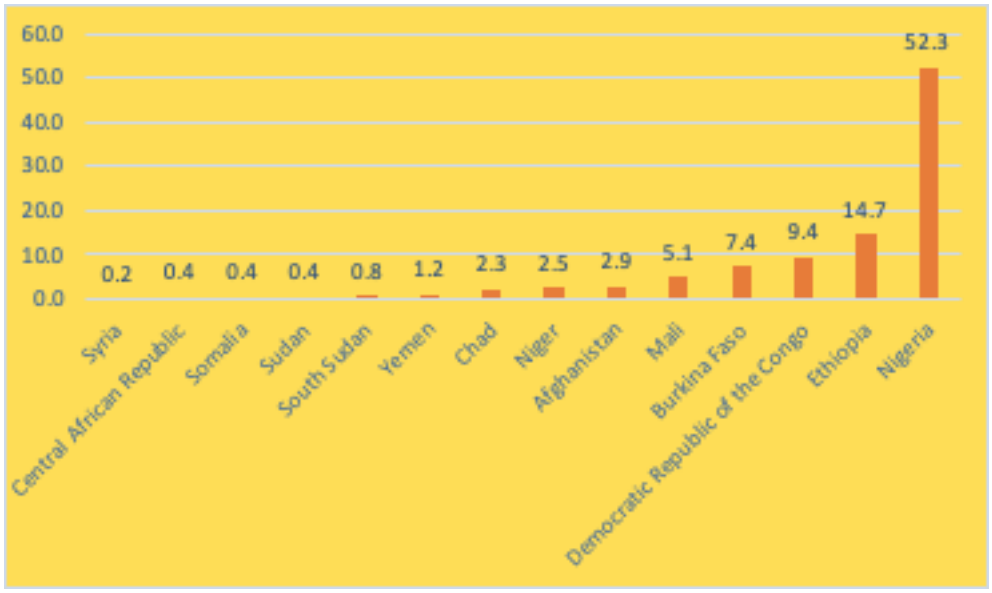
For three categories – year, instrument used and amount invested – missing data represent 8%, 16% and 37% of total data, respectively. Country, investment name and sector data are represented across all the investments.

Available data show a total of $14.3 billion invested in the 10+1 countries. The average investment was $44 million: using this to extrapolate for missing data suggests that the total amount invested in the 10+1 countries could be up to $23 billion since 2012.

By country (Figure 5), most investments were in Nigeria (52.3%), followed by Ethiopia (14.7%) and DRC (9.4%). DFI investments in Syria, CAR, Somalia, Sudan and South Sudan each represent less than 1% of DFI investments within the group. Those countries with the lowest proportion of investments are all conflict-afflicted, lacking the stable business environment that most DFIs require to invest.

[20] Previously known as the UK government's CDC Group.
[21] Previously included the Overseas Private Investment Corporation (OPIC), the US government's DFI.

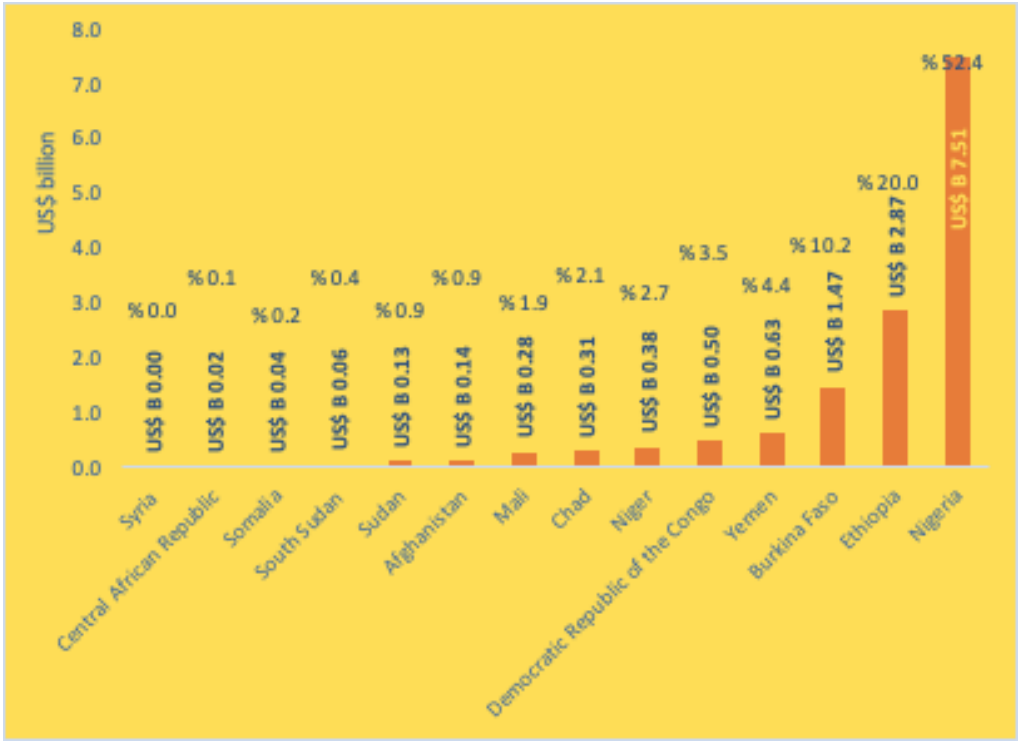
FIGURE 5 DFI INVESTMENTS BY COUNTRY, 2012–EARLY 2023 (% OF TOTAL)



Source: Author's calculations

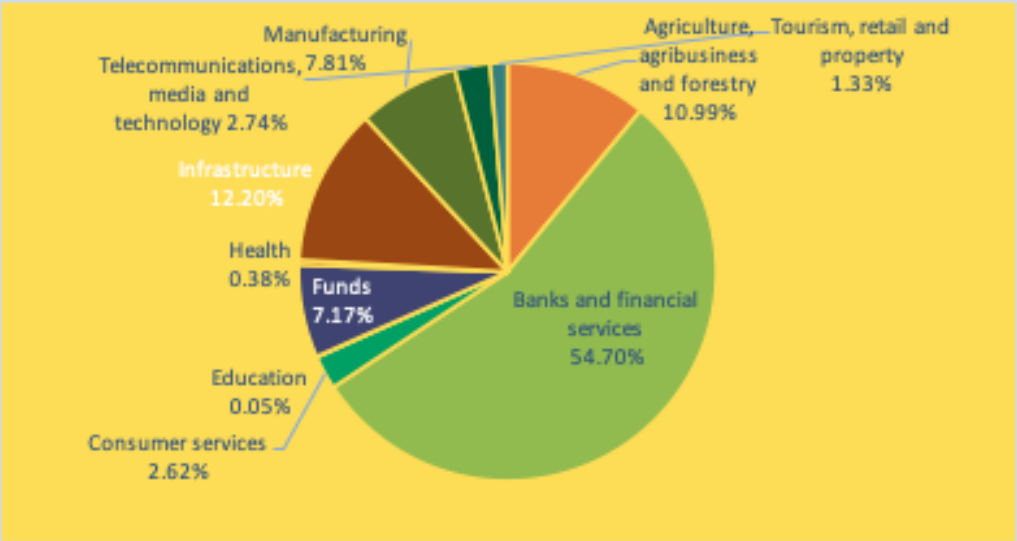
Looking at country distribution by value of investment (in $ billion) presents a similar picture of concentration in Nigeria and Ethiopia.

FIGURE 6 VOLUME OF INVESTMENTS BY COUNTRY ($ BILLION)



Source: Author's calculations

FIGURE 7 DFI INVESTMENTS BY SECTOR, 2012–EARLY 2023 (% OF TOTAL $ MILLIONS REPORTED)

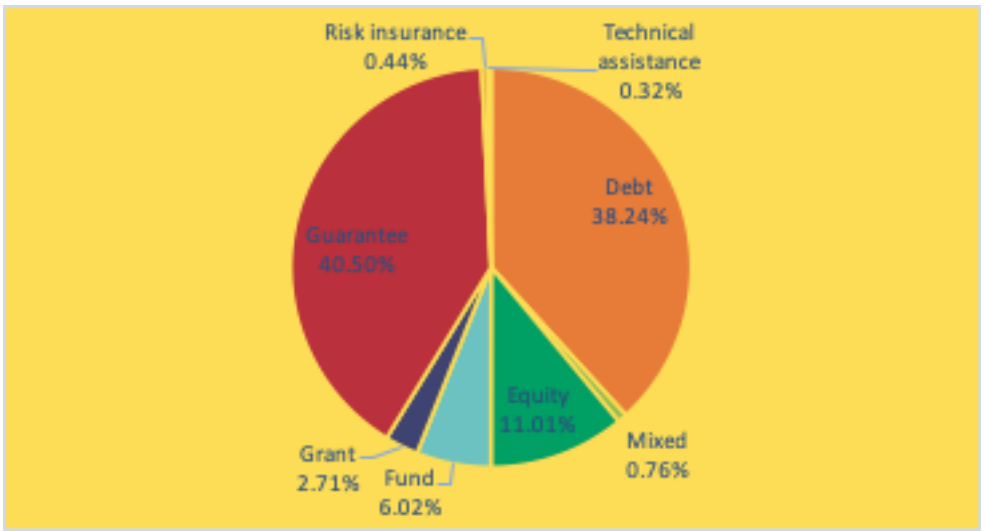


Note: Chart represents 78% of total investments, excluding investments for which no invested amount was disclosed.
Source: Authors' calculations

DFI investments in the 10+1 group are concentrated in finance, representing 54.7% of the value of investments; infrastructure represents 12.2%, agriculture 11% and manufacturing 7.8%.

For food security, we see a directly involved sector (agriculture) and two potentially indirectly involved sectors (infrastructure and manufacturing) in the top four investments.

FIGURE 8 INVESTMENT INSTRUMENTS USED (% OF $ MILLIONS REPORTED)

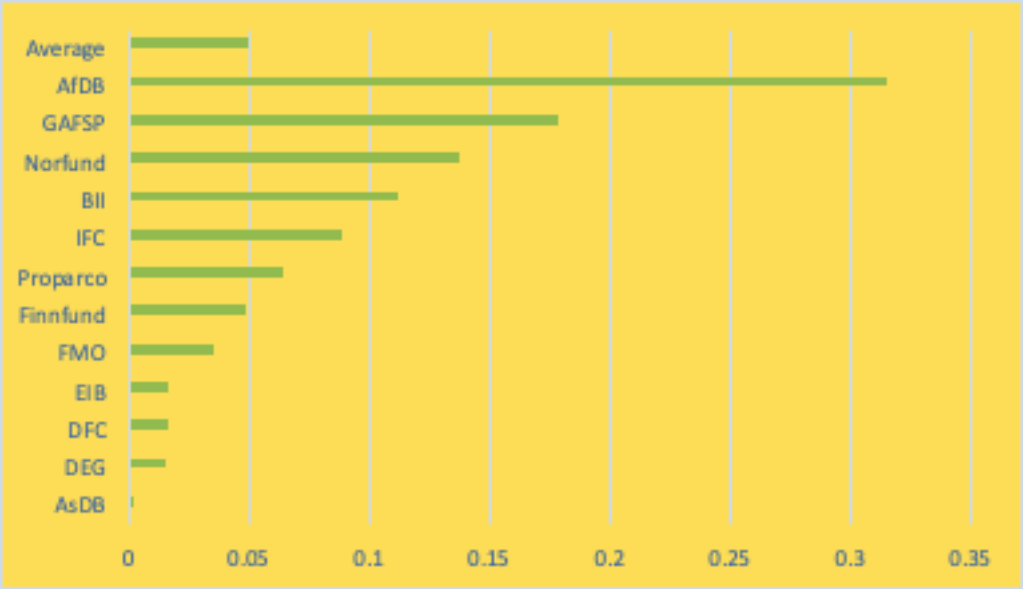


Note: Chart excludes investments for which no invested amount or no instrument type was disclosed.

Source: Authors' calculations

The spread of investment instruments used by DFIs (Figure 8) shows most investments by value in the 10+1 group of countries are through guarantees (40.5%); debt instruments (38.2%) and equity investments (11.0%).

FIGURE 9 SHARE OF DFI STOCK (RATIO OF TOTAL STOCK BY DFI) IN THE 10+1 COUNTRIES IN 2021



Note: IFC and ADB data from 2022, EIB stock data for projects outside the EU unavailable.

Source: Author's calculations

For all DFIs, just 5% of their stock was invested in the 10+1 group in 2021 (Figure 9),[22] out of a stock of about $283 billion. If investments in Nigeria are set aside, the share falls to just 2.5%, given that half of the 10+1 investments went to Nigeria. If a share of undisclosed investments is allocated towards the 10+1, total DFI investments could be approximately $23 billion, which is around 8.1% of the total stock.

We can compare our estimates to data compiled by EDFI on DFI investments in fragile contexts as defined by the World Bank. We find similarly small shares, albeit higher as the data cover more countries, with 10% for EDFI and 5% for IFC, based on historical data up to 2020 (World Bank, 2020).

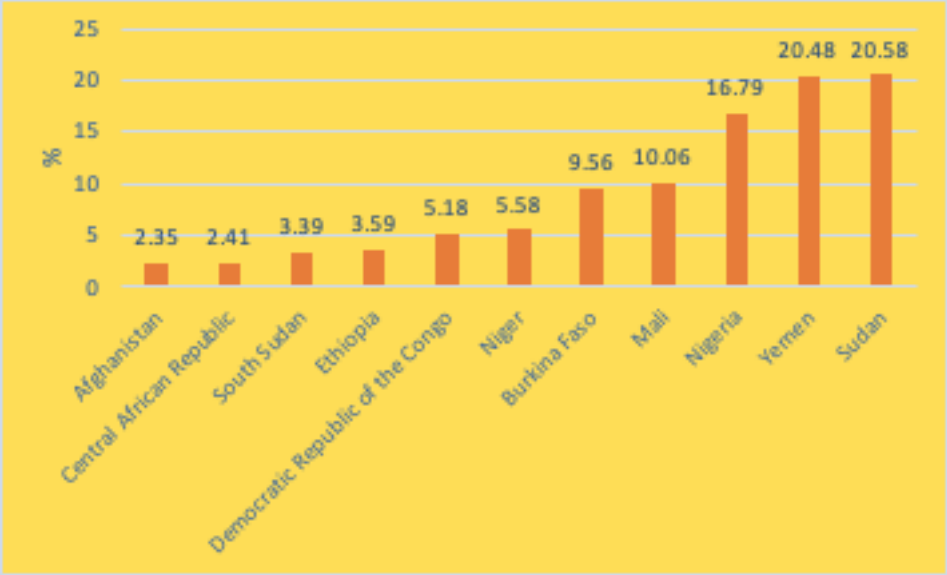
DFI food security activities in the focus countries

Here we focus on agricultural investments. We identified projects directly related to food security outcomes by scrutinising each of the agricultural projects. The scan identified 83 (16%) out of the 511 DFI projects in the 10+1 countries. This means there is only one directly registered project per country every four years. Investments range from a value of $ 0.5 million to $200 million, with an average project value of $27.5

[22] The total DFI stock across all countries was estimated at $174 billion by the end of 2021 (2022 for IFC and ADB) as reported by each DFI.

million. Of these projects, 37[23] were identified as promoting food security. In total, they are valued at $639.4 million, with an average project value of $20 million.

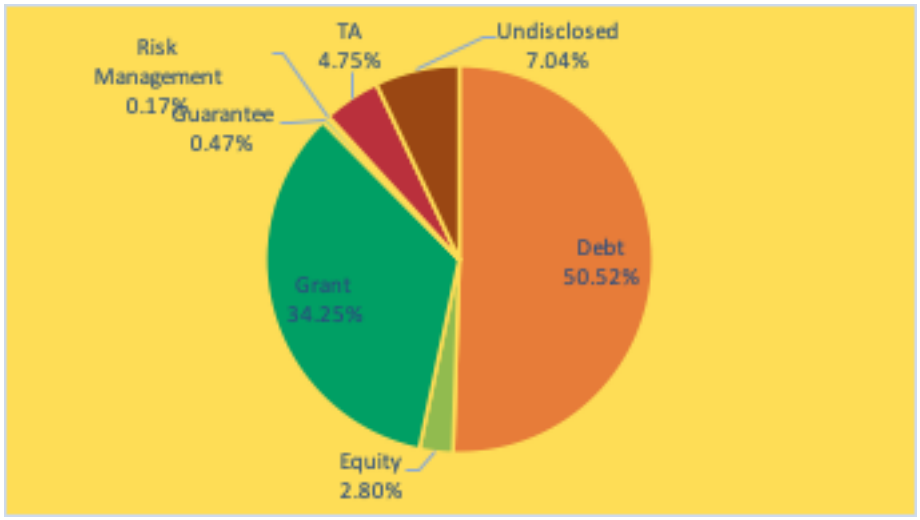
FIGURE 10 DISTRIBUTION OF DFI FOOD SECURITY INVESTMENTS (% OF TOTAL VOLUME, $ MILLION)



Source: Authors' calculations

By value (Figure 10), Sudan and Yemen received the most food security investment by DFIs, with each country portfolio's worth $131 million. Nigeria was the next most invested country.

FIGURE 11 DISTRIBUTION OF INSTRUMENTS USED FOR FOOD SECURITY INVESTMENTS (% OF TOTAL VOLUME, $ MILLION)



[23] Representing 44.6% of agriculture sector projects and 7% of total projects.

Note: All investment volume data for fund instruments are 'undisclosed'.

Source: Authors' calculations

Debt instruments have been the main way to fund food security activities, followed by grants. These instruments resemble those used for all investments in the 10+1 countries. What differs is that grants represent just over a third (34%) of all projects, whereas equity and guarantee, which were more prevalent in the overall distribution, are less used for food security investments. This may reflect that many food security investments come from the GAFSP, all of whose investments are grants.

Individual DFI food security activities

Most DFIs, particularly bilateral DFIs, carry only a few investments in food security. Given the fragile contexts of the 10+1 countries, this is not surprising. Publicly available records report only approved projects (or projects being approved), hence they do not tell us how many potentially feasible food security interventions the DFIs consider.

Many DFIs have said they have formulated a food security strategy, even though it may not be publicly available. Most strategies aim to bolster agricultural value chains in general. While a DFI may benefit from a more targeted approach that would allow them to specialise in specific segments of the agricultural value chain, given the limited opportunities for DFIs to invest in food security in the 10+1 group, a broad target means most opportunities can be considered.

In practice, DFIs concentrate on only a few large projects, which leads to herding behaviour: some projects get a lot of attention, with the rest left untouched.

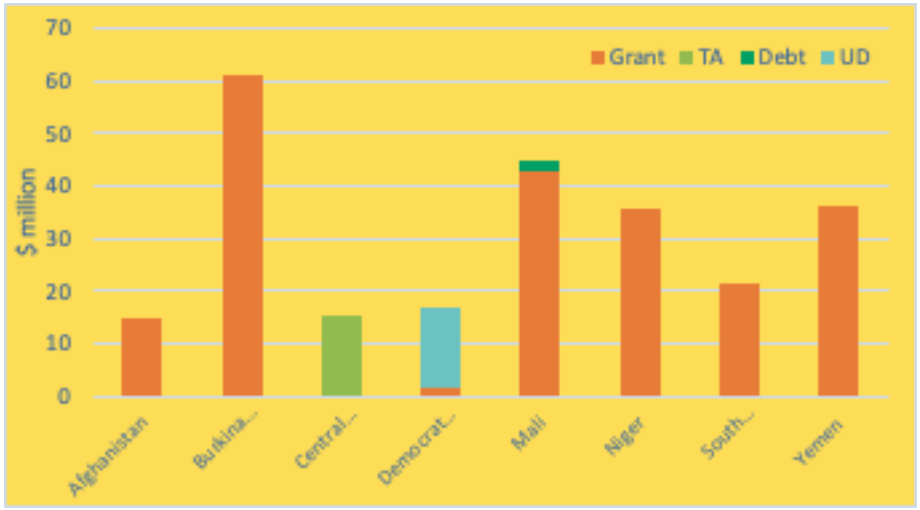
Global Agriculture and Food Security Program and the Private Sector Window

The GAFSP is a multilateral financing platform that aims to improve food and nutrition security worldwide. It was launched by the G20 in response to the 2007/08 food price spike, to build resilience, sustainable agriculture and food systems in some of the world's poorest countries. Since 2010, it has invested over $2 billion of donor funds through grants, TA, concessional loans, blended finance and advisory services (GAFSP, 2022).

To provide blended and concessional finance, the GAFSP works together with IFC through the PSW. The PSW addresses market failures through affordable funding on less demanding terms. This allows the PSW to invest in early-stage, riskier projects in IDA countries and fragile states. The PSW is a multi-donor-funded operation supported by the governments of Australia, Canada, Japan, the Netherlands, the UK and the US.

Almost all GAFSP funding is by grant (Figure 12): 11 grants totalling $219 million. The programme has one debt investment in Mali, worth $2.1 million, and two TA investments, worth $30.4 million.

FIGURE 12 GAFSP FOOD SECURITY INVESTMENTS IN THE 10+1 GROUP BY INSTRUMENT AND COUNTRY ($ MILLION)



Note: UD = undisclosed.

Source: Authors' calculations

International Finance Corporation

IFC is the largest global development finance institution, a member of the WBG. It works with the private sector improve the livelihoods of the poor. It aims to create new markets, mobilise investment and share expertise.

IFC states food security to be one of its strategic priorities. It currently invests in agribusiness companies to enhance food security by increasing production and incomes.

In October 2022, IFC launched a $6 billion financing facility to strengthen private sector capacity to respond to food security crises. Core financing will be managed through a new Global Food Security platform to support sustainable food production and the delivery of food to crisis areas.

IFC already works with the GAFSP through the PSW to provide funds to invest in projects that may not attract commercial investments owing to perceived high risks of agriculture.

IFC project data show just 4 projects in the 10+1 countries. Three of these are debt financing in Ethiopia, Nigeria and Yemen; the other is risk support in Mali, carried out under the GAFSP.

FIGURE 13 IFC FOOD SECURITY INVESTMENTS IN THE 10+1 GROUP BY INSTRUMENT AND COUNTRY ($ MILLION)

Source: Authors' calculations

British International Investment

BII, formerly CDC Group UK, is the UK government's DFI. It partners with businesses in food and agriculture: it offers equity and debt investments as well as intermediated investments. It invests across the whole agricultural value chain from farming and agroprocessing to critical infrastructure. Its most recent agriculture strategy (CDC, 2020) includes aims to increase farming productivity, promote inclusive value chains and support climate-resilient agriculture.

Discussions with BII officials highlight how the organisation has intensified its focus on chronic food insecurity in Africa, a situation exacerbated by climate change, COVID-19 and the Russian invasion of Ukraine. To develop a consistent, cross-organisational approach to food security, BII has established a Food Security Working Group, to address immediate crises as well as long-term structural challenges. Its strategy spans various sectors, leveraging BII's core strengths and focusing on high-need, high-impact areas. This includes enhancing trade and local production of agricultural inputs like fertilisers, seeds and crop protection; improving access to nutritious food and strengthening supply chains, particularly for staples and edible oils; and promoting climate-smart agriculture to bolster smallholder productivity and build climate-resilient food systems.

Additionally, BII is proactive in supporting portfolio companies to develop strategies that tackle immediate and long-term challenges. For instance, BII has negotiated a $100 million expansion strategy with Zambeef to increase row cropping and processing capacity over the next three to five years. The institution is also building an investment pipeline to support investments that bolster food security and create partnerships for systemic, scalable cross-sector interventions, which may also generate potential investment opportunities. It has also invested $50 million in AgDevCo. Overall, BII's interventions aim to address immediate critical issues like fertiliser shortages while fostering long-term stability through systemic transitions to climate-resilient agriculture and integrated, productive value chains.

It is hard to quantify BII food activities: the amounts invested in each project remain undisclosed because they are financed through intermediary funds. Six listed projects are directly relevant to food security, five agricultural projects (of which one is completed) and one manufacturing project, a loan to fund Indorama's fertiliser production in Nigeria (Box 1).

Box 1 Indorama Eleme Fertilizer & Chemicals, Nigeria

Indorama Eleme Fertilizer & Chemicals manufactures fertiliser. It has been supported by several DFIs and shows how investment in manufacturing can help improve food security. These investments allow the company to expand its fertiliser production, reducing dependency on imports, and enable Nigeria to achieve agricultural self-sufficiency (IFC, 2018).[24]

DFI supporters include BII, FMO, DEG, IFC, Proparco, etc. (see table below). The company has received support from other donors, such as the Private Infrastructure Development Group and the Emerging Africa Infrastructure Fund (IFC, 2018). Some DFIs have invested multiple times in the company. DFIs have concentrated their investments in one company rather than opting to diversify by supporting or helping set up similar companies in other countries.

DFI	Year	Instrument	Amount ($ million)
BII	2013, 2018, 2020	Debt	185
IFC	2016, 2018, 2021	Debt	152.5
FMO	2013, 2017, 2018	Debt	88.85
DEG	2018, 2020	Undisclosed	50
Proparco	2016	Debt	17.9

Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden BV (Netherlands Development Finance Company)

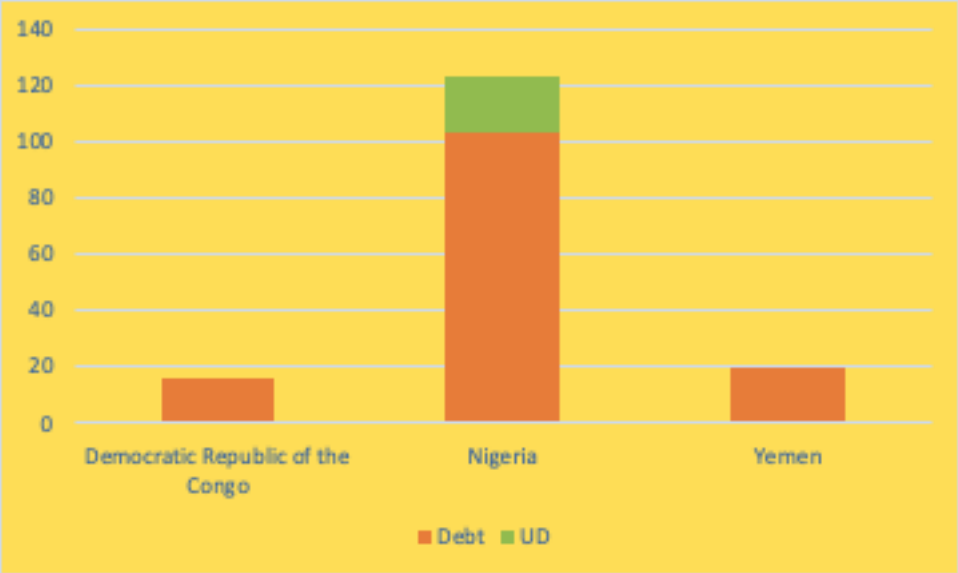
FMO, founded in 1970, is the Dutch government's DFI. Its shares are held 51% by the Dutch state and 49% by commercial banks, trade unions and other private enterprise (FMO, 2022). Its main sectors are agribusiness, food and water, energy and financial institutions. FMO has invested in over 85 countries to help businesses grow, while also being environmentally and socially responsible. It has also invested in high-risk markets successfully, which attracts other investors to partner with it and fund nascent businesses.

In food security, FMO puts agribusiness, food and water at the forefront of its 2030 strategy: it aims to 'pioneer, develop and scale' companies at their high-risk stage until they develop into larger companies, when commercial investors can replace FMO. It aims to invest €10 billion in SDG 10 and SDG 13: to increase economic inclusion, reduce inequalities and support a 'net zero' world (FMO, 2022). FMO has invested billions of euros in businesses in low-income countries.

[24] Also https://www.fmo.nl/partner-with-us/agribusiness (accessed 13 November 2023).

FIGURE 14 FMO FOOD SECURITY INVESTMENTS IN THE 10+1 GROUP BY INSTRUMENT US$ MILLION

Source: Authors' calculations



Box 2 EthioChicken

EthioChicken Group is a leading poultry and poultry feed producer in Ethiopia. Established in 2010, the company rears faster-growing, disease-resistant chickens with high egg production rates. The company produces day-old chicks that are then given to rearing agents for 56 days and subsequently sold to the market.

Households that reared EthioChicken chickens improved their food security, according to a 2018 evaluation (IDinsight, 2018). The government of Tigray suggested EthioChicken as one reason why child stunted growth rates had declined from 51% to 38% since it began operations (Aglionby, 2018).

EthioChicken has received multiple DFI investments in recent years (see table below): direct support through loans by both FinnFund and IFC as well as indirect support through commercial bank guarantees provided by the DFC.

DFI	Year	Instrument	Amount ($ million)
DFC	2014, 2017	Guarantees	3
FinnFund	2016	Loan	10
IFC	2022	Loan	10
DFC	2014, 2017	Guarantees	3

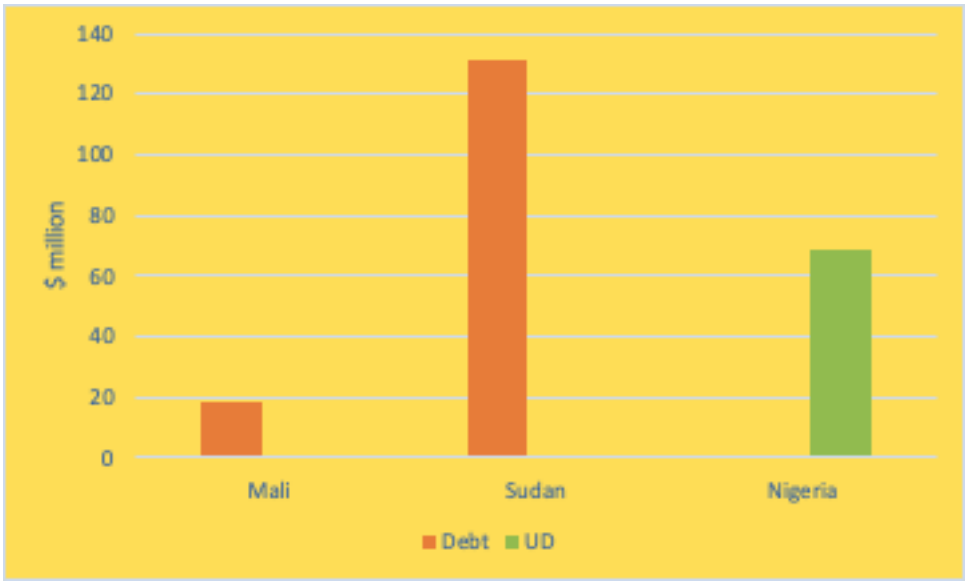
Other non-DFI donors have also backed the company, for example the Acumen Fund[25] and the Gates Foundation (Aglionby, 2018).

EthioChicken shows DFI support for an innovative market actor can help food security. it also highlights how DFI investments can end up concentrating on just a few firms, be it because they are deemed successful or for a lack of other options.

African Development Bank

AfDB is a DFI that aims to increase economic development and reduce poverty in African regional member countries. It mobilises and allocates investments as well as providing policy advice and TA to regional member countries. AfDB has several approaches, such as the High 5 Grouping, under which it has provided billions of dollars to implement projects to industrialise Africa. This High 5 Grouping focuses on food security, with 'Feed Africa' the subject. It has invested to raise agricultural productivity, provide agribusiness training while prioritising small business. Investments in agriculture have benefited 3.7 million people. Some 1,386 km of feeder roads have been built or rehabilitated (AfDB, 2022b).

FIGURE 15 AFDB FOOD SECURITY INVESTMENTS IN THE 10+1 GROUP BY INSTRUMENT ($ MILLION)



Note: UD = undisclosed.

Source: Authors' calculations

Asian Development Bank

ADB is a DFI that aims to reduce poverty, increase economic prosperity and implement sustainability in Asia and the Pacific. It provides loans, grants, advisory services and co-financing. In the past year, ADB has

[25] https://acumen.org/?investment=ethiochicken (accessed 13 November 2023).

invested in a total of $22.8 billion in all sectors including agriculture, natural resources and rural development.

ADB has tackled food security with a multi-sector approach by working with developing member countries (DMCs) to increase agricultural development, food production and employment, especially for vulnerable populations. ADB invests in market infrastructure and nutrition-smart technologies to support farmers and link them to consumers. It considers climate change and increased food prices. ADB strives to incorporate sustainable practices and international agricultural research groups into its projects (ADB, 2022).

The ADB does not undertake any food security investments in the 10+1 countries.

Deutsche Investitions- und Entwicklungsgesellschaft (German Investment Corporation)

DEG is a DFI wholly owned by the German Development Bank, a German state-owned investment and development bank. It supports developing countries through direct loans and equity investments or by investing in local banks that lend to SME. It emphasises sustainable practices and encourages companies and partners to uphold sustainable development goals.[26]

DEG has supported food security but does not have an explicit plan for doing so in vulnerable countries.

DEG only has one project aimed at increasing food security, support to the Indorama fertiliser company in Nigeria. The project is listed as worth $35 million, carried out in 2018: the instrument used is not specified.

Norfund

Norfund is a Norwegian DFI that aims to build sustainable businesses by providing risk and equity capital. Norfund mainly invests in sub-Saharan Africa; it also invests in Latin America and in Asia. Its main areas include renewable energy, financial inclusion, green infrastructure and scalable enterprises. Norfund tends to take on high-risk investment projects with high profitability – it has an internal rate of return of 6%.[27]

Norfund addresses food insecurity by investing in scalable enterprises in agribusiness, primarily in sub-Saharan Africa. These investments allow smaller companies to grow while increasing productivity and employment. It also invests in manufacturing to raise food supply in Africa. Norfund invests in private equity for local fund managers to support entrepreneurs with risk capital.

Norfund does not currently have any food security investments in the 10+1 countries.

FinnFund

FinnFund is a Finnish DFI that invests in businesses in Africa, Asia and Latin America with risk capital, long-term investment loans and mezzanine financing to achieve the SDGs. Finnfund makes 20–30 investments every year worth around €200–300 million. It invests in sectors such as forestry, energy, agriculture and financial institutions.

[26] https://www.deginvest.de/%C3%9Cber-uns/ (accessed 13 November 2023).
[27] www.norfund.no/investments/scalable-enterprises/ and www.norfund.no/norfund-invests-in-south-african-integrated-food-business/ (accessed 13 November 2023).

Finnfund invests in agriculture in vulnerable regions such as sub-Saharan Africa. It focuses mainly on improving farm production to ensure food security. Finnfund has already invested €90 million in agribusinesses in Asia, Latin America and Africa.[28]

Currently, Finnfund only has one food security investment in the 10+1 countries. It supports EthioChicken (Box 2) in Ethiopia through a $10 million loan.

Proparco

Proparco is the French government's DFI, part of the French Development Agency (Agence française de développement, AFD) group. It funds business in Africa, Asia, Latin America and the Middle East. Proparco focuses on the SDGs by funding renewable energies, agribusiness, financial institutions, health and education. So far, it has invested €7.2 billion in over 75 countries.

Proparco's priorities include investing in agribusiness and food security. It aims to develop the value chain from improving yields to marketing and international trade. Proparco invested €1.6 billion in agribusiness in direct and indirect financing between 2011 and 2021.[29]

Proparco invests in three food security-related projects, all three based in Nigeria. Two loans total $40.5 million and the third is an equity investment worth $17.9 million. All three investments are in the Indorama fertiliser company (Box 1).

European Investment Bank

EIB is the lending arm of the EU and is one of the largest financial banks in the world. It has invested over €3 trillion since 1958. It works with European countries to support economies globally (EIB, 2022). It offers loans, guarantees, equity investments and advisory services. EIB's priorities include climate and environmental sustainability, innovation, digital and human capital, sustainable energy and natural resources, and SMEs. It strives to build sustainable economies as the leading provider of climate finance.

One of EIB's main sectors is sustainable energy and natural resources, including agribusiness. EIB lent €32.7 billion of co-financing to agriculture between 2016 and 2020 (EIB, 2022). It finances projects in agriculture, fisheries, food and forestry value chains to increase food security and support farmers. EIB has lent directly to national and regional governments to support rural development and to fund public infrastructure.

Development Finance Corporation

The US DFC is a merger of the US's previous DFI (the Overseas Private Investment Corporation, OPIC) and the US Agency for International Development's Development Credit Authority. It focuses on healthcare, energy, critical infrastructure and technology. DFC supports developing countries through debt financing, equity investments, investment funds and political risk insurance. It aims to ensure global development while also growing the US economy.

DFC invests in agriculture: it promotes food security by planning to invest $1 billion in food security and agriculture over the next five years.

DFC has made four food security investments in the 10+1 group. All four are guarantees to facilitate local commercial loans to food security companies, totalling $9 million. The four investments include two projects

[28] www.finnfund.fi/en/investing/sectors/agriculture/ (accessed 13 November 2023).
[29] www.proparco.fr/en/page-thematique-axe/agriculture-and-agro-industry (accessed 13 November 2023).

providing commercial finance backing to support Ethiopia's EthioChicken (Box 1) and two projects backing credit lines to food security agribusinesses in Burkina Faso and Nigeria.

Other DFIs

We also looked at additional intermediated funds that may have carried out food security investments on behalf of bilateral or multilateral DFIs. The African Food Security Fund is funded by BII, AfDB and EIB, among others. The $100 million fund invests in food security primarily through agricultural SME investments but has yet to invest in fragile states

Similarly, AgDevCo is a specialist investor in African agribusiness. It has a current portfolio of $280 million, invested in nine countries. It provides long-term risk capital, short-term (seasonal) capital and matching grant funds. It carries out its investments through either minority equity investments, flexible and low-interest mezzanine loans of up to 10 years, fixed asset secured senior loans or secured working capital. It has no investments in the 10+1 countries. AgDevCo does, however, back Flow Equity, which owns EthioChicken (Box 2).

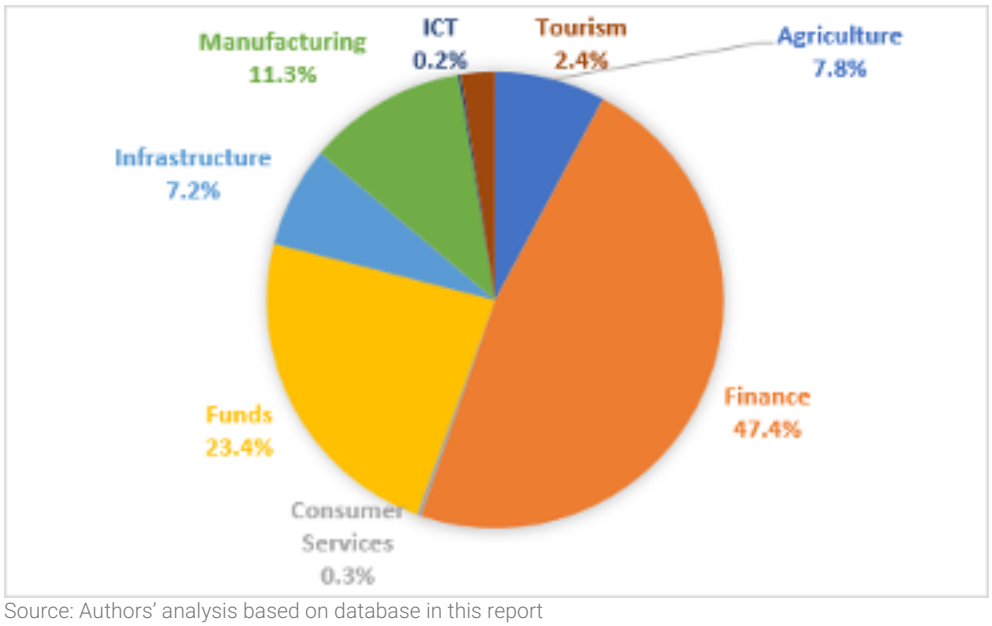
DFI activities in Ethiopia and Somalia

We examine whether and how DFIs already invest in private sector solutions to food security, looking at Ethiopia and Somalia, and find they invest, but on a limited scale.

Ethiopia

DFI investments in Ethiopia between 2012 and 2022 amounted to $2.87 billion. Agricultural sector investments represent 7.8% of total DFI investments (Figure 16).

FIGURE 16 DFI INVESTMENTS BY SECTOR IN ETHIOPIA 2012–2022 (% OF TOTAL INVESTMENTS)



Source: Authors' analysis based on database in this report

There are currently six DFI food security investments in Ethiopia, worth $23 million. These represent 10.2% of all DFI agricultural investment and 0.8% of all DFI investments. State-owned enterprises have driven much investment in Ethiopia and foreign investment is relatively new in many sectors.

Four of these investments target the same company, EthioChicken, in total representing all DFI food security investments in the country. IFC and Finnfund have provided $10 million each; DFC has provided two guarantees to the Zemen Bank to invest in EthioChicken, worth $3 million. The remaining two investments have both come from BII, one in Eleni LLC (food commodity exchange) and another in Family Milk (milk production). These have been carried out through intermediated funds and their amounts have not been made public (the data may therefore exclude information on investments such as in a Greenpath herbs exporter or Jaleneera coffee).

Somalia

There are just two DFI investments in Somalia, totalling $35.5 million. The first is a DFC Guarantee of $1.4 million for general trade finance while the second is a Norfund investment of $34.1 million in a multi-purpose intermediate fund. Neither investment addresses food security.

Promoting DFI investment for food security in fragile contexts

There are two major ways in which DFIs can address food security: DFI projects can increase incomes to improve access to food and they can address constraints in food systems (Section 3). A major challenge is how to get more DFI investment in fragile contexts, and how to address food security. We interviewed DFI representatives on their views and experience on DFI engagement in FCS countries' food systems (Box 3).

Key messages suggest that DFIs' approaches in FCS are highly context-based. They are generally open to investing in FCS food systems so long as there is a viable anchor firm. Most DFIs look to blend finance to allow them to sequence activities to nurture firms at early stages, until firms increase their capabilities to operate commercially.

Box 3 DFI engagement in FCS in practice

ODI interviews on DFI engagement in FCS with representatives from various DFIs revealed that:

DFIs will invest in viable firms, even in fragile conflict settings, as this falls within DFI mandates (e.g., market creation, development goals). Lack of DFI engagement in some FCS countries is down to lack of viable firms, intense and violent conflict, reputational risks and small markets.

Blended finance is essential to enable DFIs to sequence nurturing of pioneering firms with grants, advice and TA at early stages, to prepare them for subsequent commercial investment.

DFIs can engage more in FCS with more resources.

While DFIs focus on investing in firms, short-term interventions (e.g., trade finance) and long-term resilience-building (e.g., food system ecosystem, advisory services, TA) is also recognised.

Risk assessment is highly country context-specific, and threshold indicators for investment/engagement criteria are often not publicly available.

Source: ODI interviews with DFIs

Based on these findings, we suggest two ways in which shareholders of DFIs and other stakeholders can promote food security.

One is to create conditions for viable firms to emerge. Evidence shows there are large firms in fragile contexts addressing food security already backed by DFIs, such as EthioChicken in Ethiopia, Indorama Eleme Fertilizer and Chemicals in Nigeria and HSA in Yemen. Such firms are often long established (e.g., HSA from 1938) and have received multiple loans from multiple DFIs.

The other way is to blend finance. Expectations of returns need to be tempered when investing in fragile contexts. One interviewee argued that an investment of 100 units in agriculture would bring back only 75 units. Blended finance, with some grant element, will be essential to stimulate more investment.

Conclusions and implications

To recap the main messages from this study, DFI investments can contribute to food security in the 10+1 countries through two channels: either by raising productivity anywhere in the economy, thereby potentially increasing incomes, which would then allow people to access more food; or by directly investing in farms and agribusiness in the food supply chain to raise food output and agricultural and agribusiness productivity, reduce costs and thereby increase the availability of food and reduce its cost to consumers.

The 10 +1 countries generally lack capital to invest. DFIs should therefore be a valuable source of additional capital. We have identified opportunities to address constraints in food value chains, with examples from Ethiopia and Somalia. In practice, however, DFIs invest little in fragile states in general, and in the 10+1 group in particular. Only 5% (2.5% excluding Nigeria) of DFI investment goes to the 10+1 countries. Even less do DFIs invest in agriculture and its value chains. DFIs face mixed incentives and regulatory frameworks, and see few opportunities to invest more in fragile contexts or in food security.

DFI managers told us they could not find companies and projects in which they could invest with risks they could tolerate, with the returns they expected, and on a scale that covered the administrative costs of allocating, disbursing and monitoring use of DFI funds. Most businesses that could benefit from more capital face too much risk for the DFIs: the firms are often so small that DFI administrative costs per dollar disbursed are too high. They may not have the required audit standards to be eligible for investment.

When DFIs do find investible companies in the 10+1 countries, they often invest in the same company, so that some well-run (or fortunate) enterprises, such as Indorama Eleme Fertilizer and Chemicals, EthioChicken and HSA, benefit disproportionately from DFI finance. It is hard to imagine that there are no other investible firms: the way that DFIs converge on a handful of enterprises suggests herd behaviour.

Hence, the potential of DFIs to finance companies and projects that would improve food security in the 10+1 group is not sufficiently realised.

Could DFIs do more, given the limits that their mandates, appetite for risks, demand for returns and operating procedures impose on them? From our interviews, there are some ways forward. One would be to blend the near-commercial finance of the DFIs with concessional funds, funds that neither demand low risk nor expect full repayment. To make this happen, either shareholders of the DFIs would have to agree to provide more of their resources on concessional terms for fragile states or donors would have to match DFI investment with grants from aid budgets. Some investments already blend commercial with concessional finance, but we were told that constructing such packages is not easy, especially when the package is provided by more than one agency – which agency is prepared to take losses while the other does not?

A further path we identified is to create the conditions for and develop companies that are ready to receive DFI finance. General and targeted private sector development programmes in fragile contexts are hard but, if they can create more companies such as Indorama, EthioChicken and HSA, the returns can be high. There could also be a concerted effort towards building environmental, social and governance frameworks in firms in fragile contexts so they are better prepared to receive DFI finance – or DFIs, with support from shareholders, could relax some of the strictest standards where possible. DFIs and shareholders could also work with large global multinationals that have an existing supply chain footprint in FCS.

A final path is to try to lower the transactions costs of lending in 10+1 countries, by devolving DFI finance to funds based in country, managed domestically by teams that may have lower administrative costs, which benefit from local knowledge, thus spending less time searching for information to justify approval of funds.

Locally managed funds established by donors exist: there may be scope to increase and expand them. If DFIs are to work more in fragile contexts, they need to have the incentives and tools to do so. This includes the staff to search for and close (small) investment deals to support food security in fragile contexts.

These approaches take time. Not much can be done in the short term. That said, thanks to the 511 investments already made in the past, the 10+1 countries are in better shape to address current crises than they would otherwise be. Additional investment now would support resilience in the future too.

Further thinking is also required. For example, are there particular activities where DFI finance could be most effective to support food security? Demand for additional capital can be seen along most agricultural value chains, from input suppliers to farmers to processors to wholesalers and retailers. Just which companies would benefit most from capital, and which companies are most limited by capital, is something to be judged case by case. In 10+1 countries, it is remarkable how resourceful farms and agribusinesses can be in making the best of the limited funds they can access.

Investments in transport may be one of the better bets: transport costs are often high in fragile contexts and reducing unit transport costs can lower the cost of food to everyone's benefit. Roads and ports may well generate high social returns.

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Annex 1. Multilateral and DFI strategies in fragile and conflict-affected situations

Institution	FCS definition	Latest FCS strategy document (and year when first FCS strategy was launched)	Objective/key priorities	Key strategies	FCS country coverage/limitations
WBG	Countries with high levels of institutional and social fragility and are affected by violent conflict based on threshold number of deaths relative to the population (World Bank, 2022)	Strategy for Fragility, Conflict and Violence (FCV) 2020–2025 First strategy launched in 2020	Enhance WBG's effectiveness to support countries in addressing the drivers and impacts of FCV and strengthening their resilience, especially for their most vulnerable and marginalised populations	Differentiated approach that is structured around four pillars (preventing violent conflict and interpersonal violence; remaining engaged during conflict and crisis situations; helping countries transition out of fragility; mitigating the spillovers of FCV)	
IFC		Aligns with WGB's FCV Strategy 2020–2025 Incorporated FCS as a strategic priority area since 2010; established a dedicated FCS Coordination Unit in 2012		Commitment to increase share of investment commitments in IDA and FCS countries to 40% by FY2030, with 15–20% in low-income IDA and IDA FCS countries	Lack of viable investment opportunities in FCS with widespread conflict and/or absence of rule of law; an inhospitable investment climate; or very small economies where investment sizes are too small for a large investor such as IFC (IFC, 2019a)
AfDB	Fragility is defined as a condition where the exposure to internal or external pressures exceeds existing capacities to prevent, respond to and recover from them,	Strategy for Addressing Fragility and Building Resilience in Africa 2022–2026	• strengthening institutional capacity • building resilient societies	• upstream level: enhancing the business environment • midstream level: building critical infrastructure	• lack of investment opportunities in fragile situations • risk appetite commensurate with the

Institution	FCS definition	Latest FCS strategy document (and year when first FCS strategy was launched)	Objective/key priorities	Key strategies	FCS country coverage/limitations
	creating risks of instability (AfDB, 2022a)		• catalysing private investment	• downstream level: facilitating investment finance	requirements of operating as an AAA-rated entity • comparatively high transaction costs of financing smaller-scale projects (per volume of lending) relative to large projects (aside from large, natural resources-linked projects, in most of the transition states project size will inevitably be small and comparatively costly)
ADB	FCAS DMCs include (i) those affected by fragility, defined as a combination of exposure to risk and insufficient coping capacity of the state, system and/or communities to manage, absorb or mitigate those risks; and (ii) those affected by conflict SIDS are DMCs with specific social, economic and environmental vulnerabilities, including geographic remoteness and dispersion,	Fragile and Conflict-Affected Situations and Small Island Developing States Approach and Operational Plan 2021–2025 (Operational Plan in FCS first launched in 2013)	• improve livelihoods, inclusiveness and resilience in FCAS and SIDS	• improving responsiveness of standard ADB processes, procedures and practices for FCAS and SIDS differentiated approaches • increasing ADB's institutional capacity for operations in FCAS and SIDS • enhancing understanding	ADB classifies 11 DMCs as FCAS and 16 DMCs as SIDS

Institution	FCS definition	Latest FCS strategy document (and year when first FCS strategy was launched)	Objective/key priorities	Key strategies	FCS country coverage/limitations
	small populations and markets, narrowly based economies, low fiscal revenue, high import and export costs for goods and increasing exposure to natural hazards and climate change				
BII (CDC, 2019, BII 2021a)	Following OECD definitions	No formal FCS strategy document but cited aim for engagements in FCS countries in latest BII 2022–2026	• supporting troubled states on a path to stability and prosperity	• adaptable investment approach in FCS • for extremely fragile contexts, BII investment would be typically through regional companies and platforms, specialist intermediaries and focused fund managers, and project finance if following multilateral development banks with preferred creditor and political risk guarantees	• no specific FCS coverage in mandate • geographic scope: Africa, South Asia, Indo-Pacific, Caribbean • based on BII learnings from 2012–2021 operations, difficulties in securing effective impact or commercial outcomes through directly held investments in extremely fragile markets